Legislative Budget Analysis 2013 Biennium

Volume 1—Statewide Perspectives

Budget Overview
- *An Executive Summary*

Perspectives on the Economy and Demographics
State Revenue Perspectives
State Expenditures Perspectives
- Overview of State Expenditures
- Major Expenditure Proposals

Major Issues Facing the Legislature
Agency Summaries

January 2011

Legislative Fiscal Division

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LEGISLATIVE BUDGET ANALYSIS
2013 BIENNIUM
VOLUME 1 – STATEWIDE PERSPECTIVES

REPORT FROM THE LEGISLATIVE FISCAL DIVISION TO THE SIXTY-SECOND LEGISLATURE

January 2011

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Acknowledgements

The multi-volume *Legislative Budget Analysis* report is the product of many hours of analysis by the staff of the Legislative Fiscal Division (LFD), a nonpartisan office which provides fiscal and policy information and advice to the legislature. The LFD thanks the many entities that assisted in its completion, particularly the Print Services Bureau.

LFD Publications

For information on this report and others, contact the Legislative Fiscal Division at (406) 444-2986 or visit the division's internet website at:

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Director/Legislative Fiscal Analyst
AMY CARLSON

December 2010

Members of the Sixty-second Legislature:

I submit for your consideration the state budget outlook for the 2013 biennium and the analysis of the Governor's Budget in volumes 1 through 8. They are available online at the following link: http://leg.mt.gov/css/fiscal/reports/2011-session.asp. The work contained in these volumes of analysis began a year ago when the Fiscal Division began its analysis for a March 2010 mid-interim budget update for the Legislature and the Legislative Finance Committee.

Since that March update, the Legislative Finance Committee has worked to create options for the 2011 session through a number of efforts:

- Directed staff to create budget options for the Reference Book and available online at: http://www.leg.mt.gov/css/Committees/Administration/Finance/2011_lfc_default.asp
- Reviewed and heard public comment regarding items in the Reference Book with many full interim committees and subcommittees of the same.
- Adopted recommended motions for joint appropriation subcommittee to give additional choices presented by the executive.

As a result of this work many more options will be available to the 2011 session than would have been available with just the work of the executive. Some of this work has generated bills that will be considered through legislative deliberation.

My first year as the Legislative Fiscal Analyst has been an honor and a privilege. The Montana Legislature, being a citizen legislature, not only represents the people of Montana; they are the people of Montana. I want to thank the members of the Legislative Finance Committee for their wisdom and guidance that got me through the challenges of this past year.

I also need to thank the staff of the Legislative Fiscal Division. These professionals are solidly committed to the Legislature and to serving the people of Montana. They are an amazing group that works hard to find the answers for your fiscal concerns. You will find them listed with their areas of expertise on pages ix.

Finally, I need to thank the agency staff and Office of Budget and Program Planning for their cooperation and assistance in creating this analysis.

Sincerely,

Amy Carlson
Legislative Fiscal Analyst

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Judicial Branch, Law Enforcement and Justice....................Section D, Volume 6
Education...Section E, Volume 7
Long-Range Planning...Section F, Volume 7

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INTRODUCTION VOLUME 1

PURPOSE OF VOLUME 1

The purpose of this report is to provide legislators with the information needed to assist them in crafting a balanced state budget and fiscal policy, and in reflecting their priorities in the 2013 biennium general appropriations act and other appropriations bills. It seeks to accomplish this by: 1) providing perspectives on the state's fiscal condition and the budget proposed by the Governor for the 2013 biennium, and 2) identifying some of the major issues now facing the Legislature. As such, this document is intended to complement Volumes 2 through 7 of the Legislative Budget Analysis – 2013 Biennium, which contains our review of the 2013 Biennium Executive Budget. In addition, this document is a reference document for all legislators, providing a myriad of information about state government.

While Volumes 2 through 7 of the Legislative Budget Analysis report the results of our detailed examination of revenue estimates and expenditures and proposed budgets of state programs, Volume 1 presents a broader fiscal overview and discusses significant fiscal and policy issues which either cut across program or agency lines, or do not necessarily fall under the jurisdiction of a single fiscal subcommittee of the legislature. Volume 1 discussions incorporate the December 15 Governor's revisions.

This volume is divided into six parts:

- **2013 Biennium Overview** provides a high level summary of our analysis of the proposed executive budget.
- **Perspectives on the Economy and Demographics** describes the current outlook for the economy.
- **State Revenues Perspectives** provides a review of the revenue projections in the budget and our own assessment of revenues through FY 2013.
- **State Expenditures Perspectives** – Part One provides an overview of the state spending plan for the 2013 biennium.
- **State Expenditures Perspectives** – Part Two evaluates the major expenditure proposals in the budget.
- **Major Issues Facing the Legislature** includes discussions of several issues, a list of which can be found on page 92 of this volume.
- **Agency Summaries** provides a budget comparison table, an organizational chart, and major highlights of each agency budget.

WHAT IS CONTAINED IN VOLUMES 2 THROUGH 7?

Volume 2

Volume 2 includes a summary and overview of the state's major revenue sources. A review of the table of contents will give the reader a quick idea of revenue sources included and the structure of the report. This volume will be provided to the House and Senate Taxation committees for use as a working document, and delineates the economic assumptions used to derive revenue estimates adopted by the Revenue and Taxation Interim Committee (RTIC) on November 19, 2010 and introduced in the revenue estimate bill (HJR 2).

Volumes 3 through 7

Volumes 3 through 7 offer detailed analyses of individual agency budgets, as proposed through the Governor's Executive Budget submitted in mid-November, but had gone to print before the December 15 revisions were received. These volumes feature program-by-program detail, as well as the LFD analysis of each agency budget. Agency presentations are grouped in sections corresponding to the appropriations subcommittee addressing the agency.

- Volume 3 contains section A – General Government
- Volume 4 contains section B – Health and Human Services
- Volume 5 contains section C – Natural Resources and Transportation
- Volume 6 contains section D – Judicial Branch, Law Enforcement, and Justice
- Volume 7 contains section E and F – Education and Long-Range Planning, respectively

Volumes 3 through 7 briefly describe the agencies from all three branches of state government, as well as each program within an agency. The basic structure used for the analysis is consistent across agencies. These volumes detail an agency's requests, as well as a list of proposals and issues significant to the agency. When appropriate, there may be discussion of circumstances that could hold budgetary impacts (e.g., proposed executive legislation or agency reorganization). These volumes also present detailed discussions of present law adjustments, new proposals, and significant issues facing the various agencies as identified by legislative fiscal analysts.

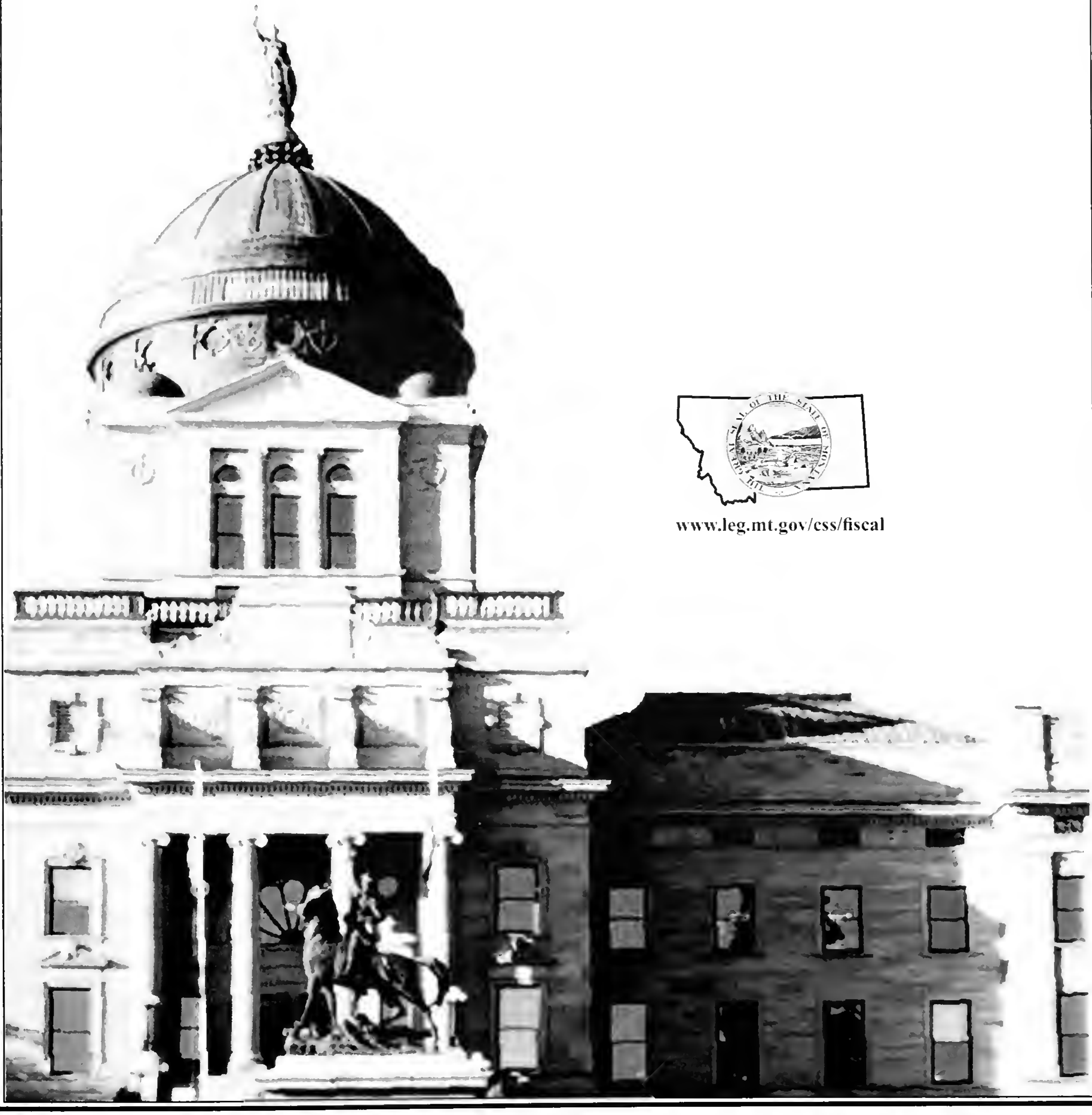
Agency budgets are presented in three tiers as required by statute:

- **Base budget:** the level of funding authorized by the previous legislature
- **Present law base:** the additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature
- **New proposals:** requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding

By making this presentation in this tiered manner, legislators can use the "base budget" as the starting point, then to follow the incremental increases that result in a total budget request for an agency.

Budget Overview

. . . An Executive Summary



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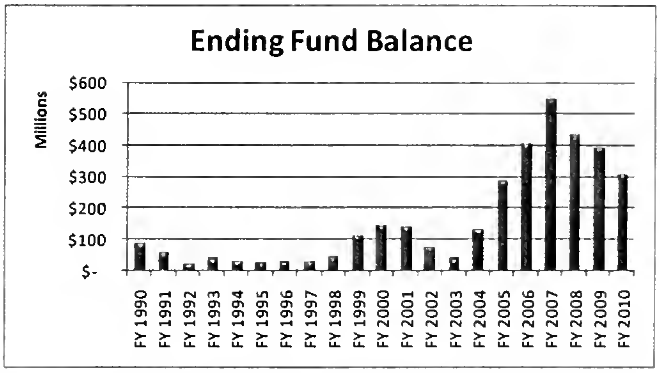
Budget Overview
-An Executive Summary –

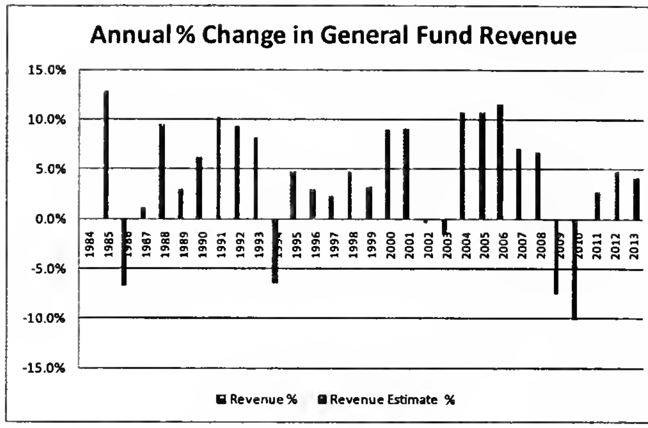
SETTING THE STAGE

Up until the last year or so, it appeared that the revenue impact to Montana of the recession would be mild. Significant revenue declines in Montana were not fully realized until late in 2009. Most states experienced the full impact of the Great Recession earlier.

In addition to the delayed revenue impact going into the recession, Montana was in an unusually strong fiscal position just prior to the recession. General fund ending balances were at record high levels, and then in FY 2010 and FY 2011 federal stimulus funds boosted the state economy and shored up state spending.



Also contributing to the strength of Montana's fiscal position was five years of above average revenue growth. Revenues increased in excess of 10% per year in FY 2004, FY 2005, and FY 2006



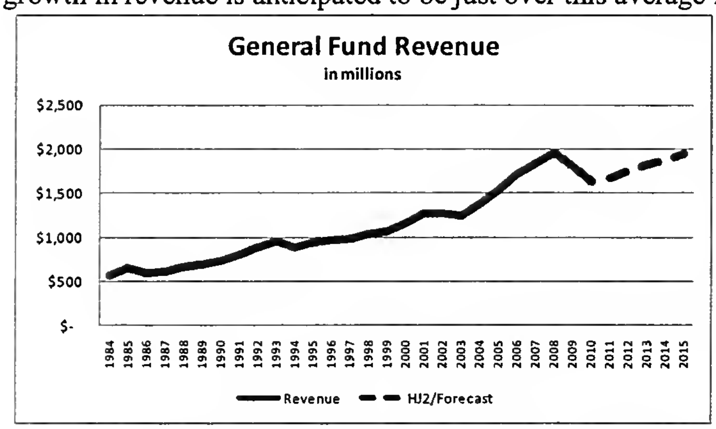
While growth slowed in FY 2007 and FY 2008, it still remained above average.

FY 2009 and FY 2010 revenue declines were larger than had been observed for decades. Projected revenues during the 2009 legislative session were reduced in anticipation of the recession reaching Montana. However, the downturn in revenues was sharper than anticipated. The graph on the top of the following page shows the unprecedented declines.

National economic forecasts show the downturn in the economy is over and a slow recovery will follow in the coming years both for Montana and the rest of the nation. State revenue collections lag behind the state economy, both as the economy slows and as it recovers. As the economy recovers, the recovery in state general fund revenues tends to be 12 to 18 months after that point.

Revenue growth can be robust after some recessions in the years following FY 2002 and FY 2003 growth exceeded 10% per year. Other recoveries have slower growth, as the shown from FY 1995 to FY 1999.

Overall average growth in the general fund revenue has been 4% since 1984. The growth in revenue is anticipated to be just over this average in FY 2012 and FY 2013.



While ongoing spending was never committed at the high level of revenues received in the mid-2000s, current levels of ongoing spending are higher than the forecast level of revenue for the next two biennia.

Legislative Reaction

In early 2010, it was clear that FY 2010 revenues would be far below anticipated levels, and that Montana's spending levels would be inconsistent with long term revenues. At about the same time, an article had just been published by The National Governors Association Center for Best Practices titled "The Big Reset, State Government After the Great Recession". The article captured the essence of the problem Montana and other states face in "right sizing" their spending. From that point, the Legislative Finance Committee proceeded to engage the Legislative Fiscal Division (LFD), other interim committees, and constituents in generating and evaluating ideas to reduce spending and/or increase revenues. These ideas were set forth in a "Reference Book" to help to create a framework for session action to be effective at getting to the heart of the financial issues at hand. The challenge facing the legislature is large, but resources for getting the work done are available.

OVERVIEW

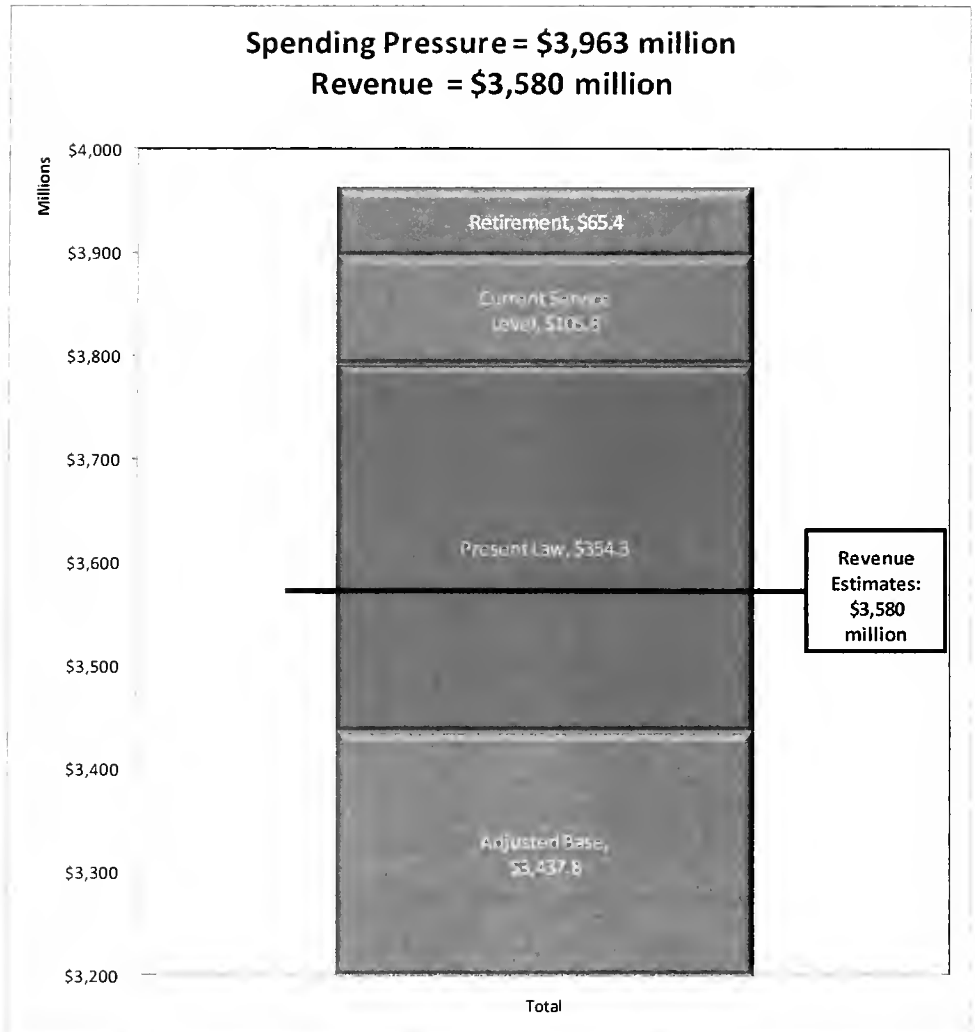
This budget overview is intended to highlight the major budget pressures and challenges facing the legislature, describe the method the Governor chose to resolve these challenges, and give an overview of the legislative work to date for options to resolve the budget pressures. The following outlines the topics:

- Financial Condition of the General Fund: Reviews the overall condition and budget pressures in the state general fund and defines the budget gap
- Legislative Preparation for Closing the Budget Gap: The work of the Legislative Finance Committee in preparing to give options to the 2011 Legislature
- Budget Recommendations of the Governor
- Gap Closing Recommendations of the Governor: How the Governor has chosen to resolve the funding issues
- Governor's Budget Updated with legislative revenue estimates HJ 2 and K-12
- Governor's Budget Policy Questions
- Caution on Revenue Estimates

THE FINANCIAL CONDITION OF THE GENERAL FUND

As required by state law, the Governor proposed a solution to balance the budget. While the public and others have expressed concerns with specific proposals, understanding the underlying financial conditions sheds light on why such proposals may have been chosen and what obstacles the legislature faces in balancing the 2013 biennial budget.

The following updates the analysis the Legislative Fiscal Division presented in March and September on the overall general fund state financial and budget condition for the 2013 biennium. The updated analysis shows that the underlying budget gap between ongoing revenues and ongoing spending pressures persists. This gap includes different categories of costs with varying degrees of spending pressure: adjusted base, present law, the level of current services provided, and the cost to pay the actuarial-required rate for the retirement systems (see the page 5 for terms and definitions). All of these components of cost add to ongoing fiscal pressure in the state general fund and other state funds. Due to the wide reaching nature of the state general fund, it is the focus of this analysis.



The changes in forecasted revenues, retirement costs, and the Governor's reductions to the "adjusted base" narrowed the gap, but updated cost estimates in two of the largest cost areas: K-12 schools and Department of Public Health and Human Services, have increased costs. If all categories of cost continue to be measured, the structural budget gap is now approximately $383 million ($3,963 million less $3,580 million) in comparison to the just under $400 million projected in March and $368 million in September.

The Governor's budget proposes one solution to closing the gap; the legislature will evaluate this proposal and many other ideas in adopting the final solution.

Terms and Definitions for the Graphic

Adjusted Base Assumptions

These assumptions basically say how much a family spent in 2010 for things that they have committed to paying for in 2011, 2012, and 2013. Examples for a family might include the mortgage, utilities, and food. These cost assumptions include some adjustments for inflation, but do not fully account for inflation.

Present Law Caseload Increases

These assumptions generally add to the adjusted base and take into account changes in the budget that do not expand lifestyle, but take into account changes in the family. Examples might include: a baby being born, high school activity fees, more food consumption, and areas of inflation not already considered.

Current Services Level

This is an unusual category of cost. Usually in the analysis of the budget we would stop here and say that everything else is a lifestyle upgrade, or in state budget lingo, "new proposal". In this biennium, it is meaningful to consider these types of costs. In our state/family budget for 2011 we are spending more than we have committed to spend in the future. Some of these expenses are purchases of assets like buildings, vehicles, and remodeling and other expenses are supporting our lifestyle.

When we set the budget that we set in 2009, we thought revenues/incomes were going to stabilize or improve, and they have not. They continued to fall through 2010. Again, we think revenues will improve from here, but not to the level we thought. Knowing that revenues were uncertain, we improved or held on to lifestyle of 2009, but did not commit to those improvements for the long term.

Examples in a family might look like this: You know that your work hours have been reduced by 5% in 2009 and the reduction could go as high as 10%, but your boss thinks the economy will improve, and by 2011 he thinks you will be back to full employment. The choices they make maintain most of their adjusted base and present law items listed above in 2009, but they preliminarily determine that they will give up certain items if their hours do not return.

In the green box in the earlier chart are items that were not additional services in 2009, but are considered new in 2010 and 2011 2% inflation for schools and 2% for providers of health services. These are increases from the 2009 actual spending level, but not increases in 2010 and 2011.

Given that the items in the green box are not one-time in nature, nor are they improvements in lifestyle, they were included for consideration in this analysis.

Pension Funds

The state sets aside money to cover the retirement of state employees. When the market fell in 2008, the value of the funds set aside to pay these expenses fell. The expenses they are obligated to pay did not fall. The amount in the purple box in the chart is the amount necessary to maintain the obligated level of pensions to state employees.

A family situation can be similar. For example, when stock market conditions erode the value of your retirement plan, it takes additional savings to offset the loss in value.

Not Included in the Calculation

A number of other issues are not included in the calculations. Therefore, any additional costs for these items will add to the potential budget gap. These might include:

State employee pay plan or health insurance increases
Fire costs beyond the amount in the Governor's emergency fund
Any potential lawsuit settlement costs
Inflationary adjustments for provider rates, rents, food, fuel, or other contracts
Water compact distributions to the Blackfeet or Gros Ventre tribes
Supplemental appropriations for the current year not anticipated by the 2009 Legislature
New programs or services

Changes since October Analysis

Increased FMAP rates – increased cost $5 million
Error in calculation of DPHHS conversion to adjusted base – increased cost $14 million
Higher anticipated caseloads in DPHHS – increased cost $5 million
Updated School funding costs – cost increase of $15 million
Updated Retirement costs - cost reduction of $3 million
RTIC revenue update - increased revenues $8 million

KEY FACTORS OF THE ANALYSIS

Revenue Forecast

The revenue used in this analysis comes from the revenue estimate adopted by the Revenue and Transportation committee on November 19th as the starting point for HJ 2.

Budget Gap is the Structural Balance[1] of Current Services in the General Fund

In the analysis of the gap, the structural balance between current service levels, including actuarial soundness of the retirement systems, and HJ 2 revenue estimates for FY 2013 is negative by about $183.5 million or 9.1%.

Beginning Balance for the 2013 Biennium[2] Has Improved

The anticipated ending fund balance for the 2011 biennium, which is the beginning fund balance for the 2013 biennium, has improved dramatically since originally forecast in March. The lowest estimate in March before any subsequent improvements was as low as negative $63 million. As of December 2010, the Legislative Fiscal Division estimates a 2011 biennium ending fund balance of $200.2 million. The following table summarizes the changes in the 2011 biennium ending fund balance:

Item	*Amount (in millions)*
MCA 17-7-140 spending reductions of all three branches	$41.0
Federal – Tier 3 FMAP	19.3
Federal – Tier 3 FMAP application to "claw back"	8.4
Federal – Enhanced FMAP extension to June 30, 2011	25.0
Federal – Additional education ARRA (stimulus)	30.7
Otter Creek coal bonus payment	81.5
FY 2010 revenue higher than February estimate	34.9
FY 2011 revenue current estimate higher than February	10.5
Fund balance, prior year adjustments, and other	(9.0)
Supplemental appropriations	(2.9)
Transfers proposed by the executive	23.8
Total	$263.2

[1] Structural Balance is the difference between revenues that are expected to continue compared to costs that are expected to continue. A positive structural balance has revenues exceeding spending. A negative structural balance has spending exceeding revenues. A budget can be balanced without structural balance when one time revenues are added or fund balance (checking account balance) is spent down.

[2] Ending fund balance is the level of fund balance anticipated at the end of the two year budget period or biennium.

LEGISLATIVE PREPARATION FOR CLOSING THE BUDGET GAP

INTERIM WORK OF THE LEGISLATIVE FINANCE COMMITTEE

Having understood the magnitude of the financial challenges of the general fund, the Legislative Finance Committee did significant pre-session work to begin to find solutions.

- Developed a "Reference Book", which is a list of options available to the legislature to address the budget gap. The book has had public hearings and been reviewed by policy and budget interim committees. These options are available online at: http://leg.mt.gov/css/fiscal/reports/2011-session.asp
- Adopted a key recommendation to adopt the 5% plans required in MCA 17-7-111 as a part of the starting point for subcommittee deliberations with the director to draft required legislation. These options are available in each applicable agency throughout Volumes 3 through 7 of the LFD budget analysis
- Devised a clearer picture of statutory appropriations and state special funds. This information has been presented to the committee and many of these options will be presented to the legislature during session. For a list of the state special funds and their revenue streams see Volume 8 Reference. For a list of general fund and state special fund statutory appropriations see page 62 of this volume

The significant impacts of this work are that more choices will be available for legislative deliberation, including statutory appropriations and state special accounts.

CHOICES

After significant interim work of the Legislative Finance Committee and other committees included in the effort, the primary areas of choices available to the legislature include:

- Ending fund balance: The legislature could adopt some reduction in the ending fund balance to offset spending reductions
- Transfers from state special accounts: As was considered in several of the Reference Book items and by the Governor in his budget recommendation, the legislature could adopt some transfers from state special funds to the general fund
- Retirement $65.4 million: The cost to actuarially fund the pension systems could be only partially addressed, addressed in a way that did not cause as much general fund cost, or delayed until the next biennium as recommended by the Governor. For more information see page 120 of this volume
- Current Service Level $105.8 million: All or some portion of the health services, provider rates, tuition reduction, and school funding items that comprise most of these costs could be eliminated.
- 4% Personal Services Reductions $15.7 million: The legislature could accept the 4% reduction in personal services recommended by the Governor.
- 5% plans $96 million: The law (MCA 17-1-111) requires the executive to submit plans to reduce the general fund and most state special funds by 5%. The legislature could choose to adopt some of the items included in the 5% reduction plans submitted by the executive that were not included in other areas.

- Reference Book: Many ideas for reduction are presented in the Reference Book developed by the Legislative Finance Committee, interim committees, and the Legislative Fiscal Division. Items include:
- Some of the items are not reviewed regularly. A more full discussion of these items follows:
  - Statutory Appropriations
  - State Special Accounts
  - Tax Credits
- Some other Reference Book items will be raised in the budget analysis and within the subcommittee process
- Tax increases and other items requiring legislation, may be introduced by legislators interested in those policy choices

Items from the Reference Book with Follow up Work Requested:

Statutory Appropriations

Statutory appropriations are appropriations authorized by the legislature to be established each year without additional legislative action. Each legislature does not consider these appropriations as it considers each appropriation in the general appropriations bill: HB 2. There are several reasons that statutory appropriations are created:

- The pre-authorization has a financial benefit to the state, such as the statutory appropriations for debt service are looked upon favorably by rating agencies and may impact the bond rating of the state and interest rate paid on the debt
- The legislature may wish to express an ongoing commitment to the beneficiaries, such as the entitlement share for local cities and counties
- The amount of the appropriation is an unknown dollar amount, but an ongoing commitment. Examples of this may be state contributions to local government employees retirement cost as a percent of payroll or the local government share of the oil and gas tax revenues

Statutory appropriations have grown an average of 7.0% per year for the past 8 years. The largest growth in statutory appropriations is in state special accounts.

State Special Accounts

State special accounts are state funds designated for specific purposes. In FY 2010, 44% of state funds were categorized as state special. State special funds have grown an average of 8.9% over the past 8 years. Examples of the increases to these funds include:

- Several additions to state special revenues have been made by initiatives such as: I-146 redirection of Tobacco Settlement Funds from the general fund to state special accounts, I-149 addition to the tobacco tax and direction to state special accounts, and I-155 the redirection of insurance tax proceeds from the general fund to a state special account.
- Other items have been legislative action to move one-time funds to state special accounts such as the fires and school facilities.
- Other growth has been caused by changes in the economy such as the growth in oil and gas revenues has increased certain state special accounts.

- Some state special accounts may factor into tax policy as the funds entering these accounts are sometime set asides of tax revenue.

Tax Credits

As tax credits are a reduction in the amount of taxes owed, some view these as an expenditure of tax revenue. Reducing tax credits would increase general fund revenue and help solve the spending gap.

BUDGET RECOMMENDATIONS OF THE GOVERNOR

On December 15th the Governor recommended the following budget.

Executive Budget Proposal - General Fund Figures in Millions								
	Actual FY2010	Estimated FY2011	Requested FY2012	Requested FY2013	2011 Biennium	2013 Biennium	Biennial $ Change	Biennial % Change
Beginning Fund Balance	$396.334	$314.880	$271.320	$233.990	$396.334	$271.320	($147.208)	-37.1%
Revenue								
Executive Revenue Estimate	1,627.145	1,732.040	1,796.470	1,887.550	3,359.185	3,684.020	(402.323)	-12.0%
Executive Revenue Proposals		23.830	43.230	3.110	23.830	46.340	23.830	100.0%
Total Funds Available	$2,023.478	$2,070.750	$2,111.020	$2,124.650	$3,779.348	$4,001.680	($525.700)	-13.9%
Disbursements								
General Appropriations	1,575.921	1,570.370	1,661.730	1,666.770	3,146.291	3,328.500	(251.832)	-8.0%
Statutory Appropriations	169.872	181.240	189.990	199.550	351.112	389.540	(71.236)	-20.3%
Transfers	88.877	49.300	16.420	12.860	138.177	29.280	(135.104)	-97.8%
Other Appropriations	-	74.150	12.620	5.130	74.150	17.750	74.150	100.0%
Supplemental Appropriations	-	2.850	-	-	2.850	-	2.850	100.0%
Feed Bill	-	7.630	1.920	7.480	7.630	9.400	7.630	100.0%
Reversions	(117.960)	(90.350)	(5.650)	(5.680)	(208.310)	(11.330)	(43.578)	20.9%
Total Disbursements	$1,716.710	$1,795.190	$1,877.030	$1,886.110	$3,511.900	$3,763.140	($417.120)	-11.9%
Fund Balance Adjustments	8.112	(4.240)	-	-	3.872	-	(16.433)	-424.4%
Ending Fund Balance	$314.880	$271.320	$233.990	$238.540	$271.320	$238.540	($125.013)	-31.5%

The Governor's budget recommends revenue estimates that are higher than those adopted by the Revenue and Transportation Committee and other various policy choices to close the gap and balance the budget.

GAP CLOSING RECOMMENDATIONS OF THE GOVERNOR

Key elements of the Governor's proposal to close this gap from the current service level include the following:

- On December 15th the Governor proposed using revenue estimates for the 2013 biennium that are $104.3 million higher than the HJ 2 level adopted by the Revenue and Transportation Committee
- Under the November 15th budget, the Governor used $111.2 million of ending fund balance to pay for current expenses. With the increased revenues that the Governor released on December 15th, the Governor proposes using $32.8 million of ending fund balance to pay for current expenses
- The Governor would transfer and use $71.4 million from state special account balances to pay for current expenses.
  - Treasure State Endowment Program funds for one biennium for $22.5 million
  - $20 million out of a $22 million in the fire suppression fund
  - A reduction in the amount of savings for school facilities obligations by $20 million

  - 50% of the revenue into the economic development fund for the 2013 biennium or $2.9 million
  - $6 million from the coal bed methane account for compensation of damages due to coal bed methane development
- The Governor recommends shifting current general fund expenditures to state special revenue funds:
  - The use of 90% of the local school district oil and gas revenues to pay for the quality educator component of the school funding formula or $72.9 million
  - The use of the savings account for school facilities for the current general fund obligation to pay the state share of school debt service or $17.2 million
- The recommendations for closing the gap from the present law level include:
  - $1.1 million reduction in statutory general fund spending by using other university system funds to support a portion of the Optional Retirement Program (ORP)
  - $10.5 million reduction in the statutory inflation rate for the entitlement share payments from the state to counties and cities
  - A selective 4% reduction in general fund personal services or $15.7 million; note that this 4% reduction is 1% greater than the additional 3% vacancy savings imposed last biennium on agencies, although it is applied only to general fund
  - The proposal does not include updated school funding costs of $6.9 million in FY 2011 and $15.0 million in the 2013 biennium
- The recommendations for closing the gap from the current service level include:
  - $22.7 million savings in the current service level to not reinstate 2% entitlement amounts for K-12
  - $1.8 million reduction from the current service level by not reinstating the same level of economic development funding in the Department of Commerce.
  - Reducing current services in the Department of Public Health and Human Services by $26.0 million, including the 2% provider rate increases and direct care worker increases
- Not addressing the pension issues in this biennium, a savings of $65.4 million in the 2013 biennium

The above totals $456.8 million, more than enough to balance the budget. The Governor also has other changes, including net tax proposals that reduce revenue by $25 million, a pay plan for $15 million, some higher and some lower assumptions in higher education, some higher and some lower assumptions in health and human services, and many other offsetting differences. The net result is a balanced budget that, using the Governor's revenue estimates, would leave an ending fund balance of $238.5 million.

Note: Also contained in the Overview on page 132 is a comparison of the Governor's changes from the executive's calculated present law budget i.e. not including pensions and other current service items, but including other items considered present law by the executive. This analysis is a very similar comparison included here, but it measures from a different starting point or the executive present law.

Policy Concerns with the Governor's Proposed Solution

Structural Balance

As stated earlier, the underlying structural imbalance pressure estimated by the LFD is $183.5 million. The Governor's proposed solution narrows but does not eliminate this imbalance.

The Governor's December 15th revenue assumptions increase the annual revenue and decrease the structural balance. As stated, these estimates are higher than the revenue level adopted by the Revenue and Transportation Committee for HJ 2.

Structural Balance Comparison	FY 2012	FY 2013
Underlying Structural Balance	$ (199.3)	$ (183.3)
Governor's Revenue Assumptions	42.7	60.6
Net Governor's stuctural balance changes	52.1	49.0
Recognized Stuctural Balance	(104.4)	(73.8)
Not Recognizing K-12 costs	5.6	9.4
Not addressing Retirment systems	29.8	35.7
Governor's Structural Balance Dec. 15	**$ (69.1)**	**$ (28.7)**

The Governor's budget does not recommend elements of the current service level budget described on pages 4 and 5:

- $52.1 million in FY 2012 and $49.0 million in FY 2013 of the reductions are due to discontinuation of the provider rate increases for the Department of Health and Human Services and the 2% entitlement increases for K-12 schools, selected 4% general fund personal services reductions, and various other recommendations
- The Governor did not recognize the additional costs for K-12 funding in the 2013 biennium
- Actuarial underfunding of the retirement systems was not addressed

In addition, several of the Governor's proposals have structural balance implications for the future:

- The revenue into the school facility account may be insufficient to cover the debt service obligations of the state in the long run and this obligation may need to return to the general fund
- The pay plan proposed is weighted heavily to the next biennium and creates an additional $7.5 million each year of ongoing general fund obligation
- There are additional pressures in other state special accounts where the fund balance was transferred to the general fund or costs shifted from the general fund to the state special account. Several of the state special accounts are either over spent or will be in the future, putting future pressure on the general fund

Unless revenues are as high as the Governor recommends, the sum of these factors could leave the underlying structural imbalance going into the next biennium at $150 million or more per year or about 8% of the annual revenue.

One issue for the legislature is whether, in tight fiscal times, some level of structural imbalance may be worth the risk. Likewise, in strong fiscal times such as the 2009 biennium, the question is whether to commit to higher levels of spending when revenues are increasing. In the 2009 biennium the executive proposed and the legislature left $78 million of anticipated structural surplus unspent.

Revenue Growth and Structural Balance

If final legislative adopted revenues are higher than current HJ 2 estimates, the structural imbalance will be less and the risk will be correspondingly less. For more information on the economic trends and current revenue estimates, see page 17 and the Revenue Overview section.

If revenue growth were expected to grow rapidly in the 2015 biennium, the risk of structural imbalance may have been mitigated. Revenues in the 2015 biennium are anticipated to grow at or near the long-term average growth rate or approximately 4% per year. Normal growth in the spending often requires most of this increase.

> While the legislature contemplates issues from more than just a financial perspective, the primary focus of this analysis is financial.

From a financial perspective, the risk associated with negative structural balance is significantly higher than the risk for positive or surplus structural balance. Negative structural balance, or spending above the state's means, leads to continued financial strain, erosion of savings, and less long term financial security. This problem was experienced by Montana in the late 1980's and early 1990's. A positive ending fund balance provides for growth and an opportunity for an increase in savings or capital investment. Montana experienced this during the high revenue growth period from FY 2004 to FY 2008.

Other Risks of the Governor's Proposal

Reduction of Savings Accounts

The Governor's budget contains the transfer of fund balances that the state relies on for emergencies and for future public infrastructure investment. These items decrease the state's savings funds and are explained in detail on page 128. Examples include:

- $33 million reduction of ending fund balance
- $20 million transfer from the fire suppression state special fund. This fund is the source of funding for emergency fire protection, and without this the general fund is the only source of funding for state obligations to pay for fires
- School facilities of $20 million. This fund was created to fulfill the legal obligation of the state to contribute to school facilities.
- Treasure State Endowment and Regional Water funds for one biennium for $22.49 million
- $6 million from the Coal Bed Methane account for compensation of damages due to coal bed methane development

- 50% of the revenue into the economic development fund for the 2013 biennium or $2.9 million

Shifting Expenditures

The Governor's budget shifts some spending from the general fund to state special funds. As these state special funds are currently being used for other functions, the proposals rely on the willingness of the legislature to shift this funding away from current programs and into programs currently funded with general fund.

$72.9 million of the budget relies on the passage of a bill that removes 90% of the oil and gas revenues from school districts and uses those funds to replace general fund obligations. This bill would have significant impacts on districts that receive material amounts of oil and gas funding. Considerations by the legislature include:

- Tax implications to the districts
- That oil and gas are depleting resources and may not provide enough funding over the long term.
- The use of the savings account for school facilities for the current general fund obligation to pay the state share of school debt service or $17.2 million

Ending Fund Balance

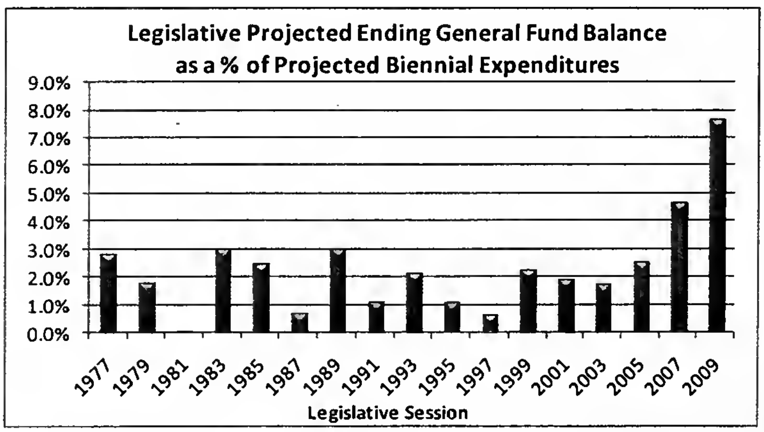
The Governor's original budget recommends a minimum ending fund balance of $125 million. The revised budget with higher revenue estimates has a $238.5 ending fund balance. Factors impacting the Governor's ending fund balance estimate are:

- The Governor chose not to include available updates in the general fund cost for schools. The additional cost of these items is $21.9 million over FY 2011, FY 2012, and FY 2013
- Over the three year period of FY 2011, FY 2012 and FY 2013 the HJ 2 revenue estimate is $164.2 million less than the Governor's December 15 estimated revenue.

The 2013 estimated ending fund balance using HJ 2 revenues and updated school funding numbers is $55.6 million. See page 15 for more details.

Given the Current Level of Economic Risk, What Level of Ending Fund Balance is Appropriate?

As described in more detail on page 97 regarding ending fund balances, a national rule of thumb for setting projected ending fund balances is between 3% and 5%, or $108 million to $180 million of the budget period expenditures.



If the legislature feels that the revenue estimates have more upside than downside risk, it could be argued that a lower ending fund balance is appropriate. If the reverse is true, a larger ending fund balance would be reasonable. In addition, when multiple savings funds other than ending fund balance are available in an emergency, it can be argued that ending fund balance could be safely lower.

Historically, the projected ending fund balance has varied from 0.1% to 7.7% of biennial expenditures.

If the anticipated ending fund balance is less than 1% of the biennial expenditures MCA 17-7-140 will trigger and require the Governor to make spending reductions. Under current law, the legislature would need to set the anticipated ending fund balance in excess of approximately $36 million to be above this trigger level.

GOVERNOR'S BUDGET UPDATED WITH HJ 2 AND K-12

The following table summarizes the Governor's budget with updated figures:

LFD Estimates with Executive Proposals - General Fund Outlook
Figures in Millions

	Actual FY 2010	Estimated FY 2011	Requested FY 2012	Requested FY 2013	2011 Biennium	2013 Biennium	Biennial $ Change	Biennial % Change
Beginning Fund Balance	$396.334	$314.880	$207.093	$126.302	$396.334	$207.093	($189.241)	-47.7%
Revenue								
HJ2 Revenue Estimate	1,627.145	1,672.133	1,753.767	1,825.963	3,299.277	3,579.731	280.453	8.5%
Executive Revenue Proposals		23.830	43.230	3.110	23.830	46.340	22.510	94.5%
Total Funds Available	$2,023.478	$2,010.843	$2,004.090	$1,955.375	$3,719.441	$3,833.163	$113.723	3.1%
Disbursements								
General Appropriations	1,575.921	1,533.314	1,701.756	1,704.751	3,109.235	3,406.507	297.272	9.6%
Executive New Proposals	-	-	(27.413)	(32.848)	-	(60.261)	(60.261)	
Statutory Appropriations	169.872	180.683	189.618	197.180	350.555	386.798	36.243	10.3%
Transfers	88.877	49.144	16.741	12.426	138.021	29.167	(108.854)	-78.9%
Other Appropriations	-	139.737	-	-	139.737	-	(139.737)	-100.0%
Supplemental Appropriations	-	2.851	-	-	2.851	-	(2.851)	-100.0%
Feed Bill	-	9.818	2.469	10.009	9.818	12.478	2.660	27.1%
Reversions	(117.960)	(112.263)	(5.383)	(6.686)	(230,223)	(12.069)	218.154	-94.8%
Total Disbursements	$1,716.710	$1,803.284	$1,877.788	$1,884.832	$3,519.994	$3,762.620	$242.626	6.9%
Fund Balance Adjustments	8.112	(0.466)	-	-	7.646	-	(7.646)	-100.0%
Ending Fund Balance	$314.880	$207.093	$126.302	$70.543	$207.093	$70.543	($136.549)	-65.9%
Executive Budget Adjustments								
Less Guarantee Account Revenue			1.024	5.478	-	6.502		
More Public School Costs		6.885	4.528	3.956	6.885	8.484		
Total Adjustments		$6.885	$5.552	$9.434	$6.885	$14.986		
Revised Ending Fund Balance		$200.208	$113.86	$48.67	$200.208	$55.557		

The key differences include:

- Revenue estimate difference from the level adopted by the Revenue and Transportation Committee adopted revenues for HJ 2 reduces the ending fund balance by $164.2 million
- Updated costs for K-12 schools reduce the ending fund balance by $21.9 million

The remaining $3.188 million of higher ending fund balance is the result of many small differences in the balance sheet items such as: prior year adjustments, statutory appropriations, feed bill assumptions and reversion estimates

GOVERNOR'S BUDGET POLICY QUESTIONS

In addition to the high level financial policy questions before the legislature, the Governor's budget proposes several other policy choices.

Pay Plan: The pay plan increases state employee pay by 1% on January 1, 2012 and by 3% on January 1, 2013. The legislature will need to weigh the needs of additional pay for employees against the budget pressure facing the state. For an analysis of the pay plan, please see page 99.

Local Government Funding: Several of the reductions in spending or transfer come from state funding for local governments.

- Entitlement Share: The Governor has recommended limiting inflationary increases for the state payment to cities and counties to 0.76%. The Legislative Fiscal Division has done analysis on the history of this payment that it is contained in the Major Issues section page 90.
- Treasure State Endowment: The executive proposal eliminates treasure state endowment and regional water grants for the 2013 biennium.

School Funding: the Governor proposes several changes in school funding:

- The funding sources for two of the components of the school funding formula – quality educator and debt service guaranteed tax BASE aid - would change from the general fund to specific state special funds. The legislature authorized a 2% entitlement increase in each year of the biennium allocated on a one-time basis. The Governor does not continue this 2% amount.
- The Governor's action relative to the school facility fund lessens the long-term commitment of the state to school facilities. Reallocating revenues formerly committed to school facilities and directing them toward current general fund obligations for debt service also erodes the commitment.

Higher education funding: The executive recommended biennial increase in general fund for the Montana University System and community colleges is 9.0% (adjusted to HB 645) compared to the statewide average increase in the biennium of 3.6% (see Expenditure section for more detail).

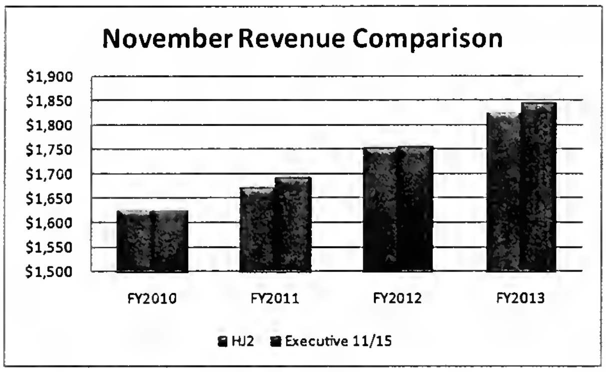
Department of Public Health and Human Services (DPHHS) caseload estimates: The caseload estimates appear to be restrained. LFD staff prepares independent estimates for selected Medicaid services. Historically, LFD staff has considered Medicaid caseload estimates jointly with DPHHS staff, including discussions of the model used by DPHHS, cost trend assumptions, and various discrete changes made to estimates. This process was not available to LFD staff as part of the 2013 biennium budget development. Therefore, the ability of LFD staff to analyze Medicaid caseload estimates included in the executive

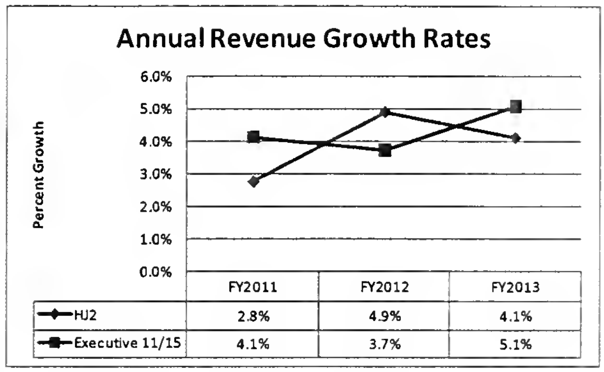
budget is not as complete as in past years, also contributing to the level of risk in establishing Medicaid cost estimates. Given the magnitude of this estimate, it may be worth investing in the development of an independent Medicaid estimate similar to how the LFD estimates revenues.

Capital investments: the Governor recommends reducing the state's previous commitments to capital projects in information systems and buildings. In addition, the recommendation has little spending to maintain current infrastructure.

CAUTION ON REVENUE ESTIMATES

In November, the executive and the Legislative Fiscal Division recommended economic assumptions and associated general fund revenue estimates to the Revenue and Transportation Interim Committee. The total difference between the two estimates over the three year period was $45.5 million or 0.87%.





The executive growth rates anticipated for FY 2011 through FY 2013 are illustrated in the chart above at 4.1%, 3.7% and 5.1% respectively.

In December, the executive chose to revise its FY 2011 forecast based on year to date (YTD) revenue collections in comparison to average collections for the past 11 years. YTD analysis is frequently used to evaluate forecasts for reasonability. In the last half of a fiscal year these numbers are often used to give indications if the forecast is on target, high, or low.

YTD analysis has advantages and disadvantages:

- The positive aspect includes that although it is a snapshot in time, represents actual collections to date
- The negative aspects include:
- One data point does not necessarily indicate a trend
- The variability of actual collections to YTD collections range widely
- Mid-year data could have unusual accounting or collection issues, causing a variation in final collections.

Comparison	% Collection Through November	Implied Full Year Collections
Highest %/Lowest Collections	29.7%	$1,546.8
Lowest%/Highest Collections	25.1%	$1,828.2
Average%/Collections	26.9%	$1,708.9
Difference between the High and the Low		$281.4

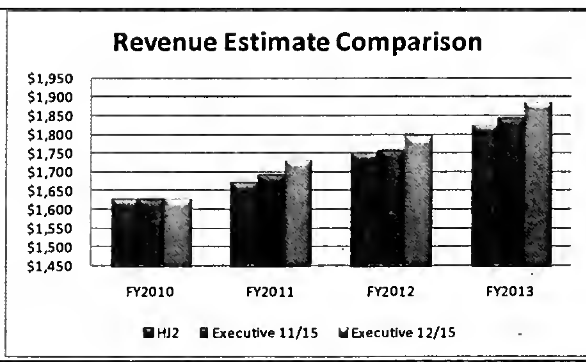
To illustrate the variability, the last nine years of data was examined and the results applied to the current YTD revenue collections. The fluctuation has been significant - approximately 16% or a $281.4 million range between the high and low years. This wide a variation may not make for a consistent method of revenue forecasting. While year to date analysis is an excellent tool if determining reasonableness of a forecast or for testing if current year revenues are close to the estimated level, it is not necessarily the most accurate for forecasting purposes.

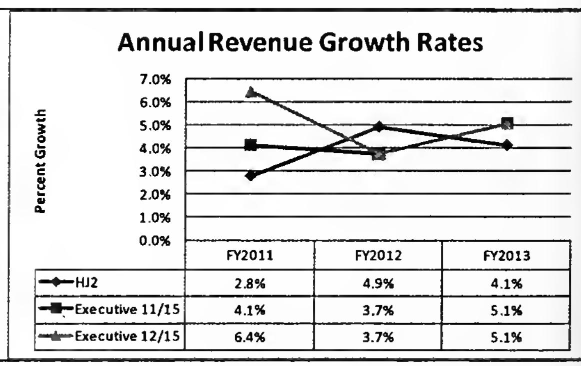
Note: FY 2000 and FY 2001 were not used since revenue streams were materially altered beginning in FY 2002 and the new accounting system had not stabilized yet in those two years. The Legislative Fiscal Division generally does not use those years for analysis purposes.

Executive Change in Forecast

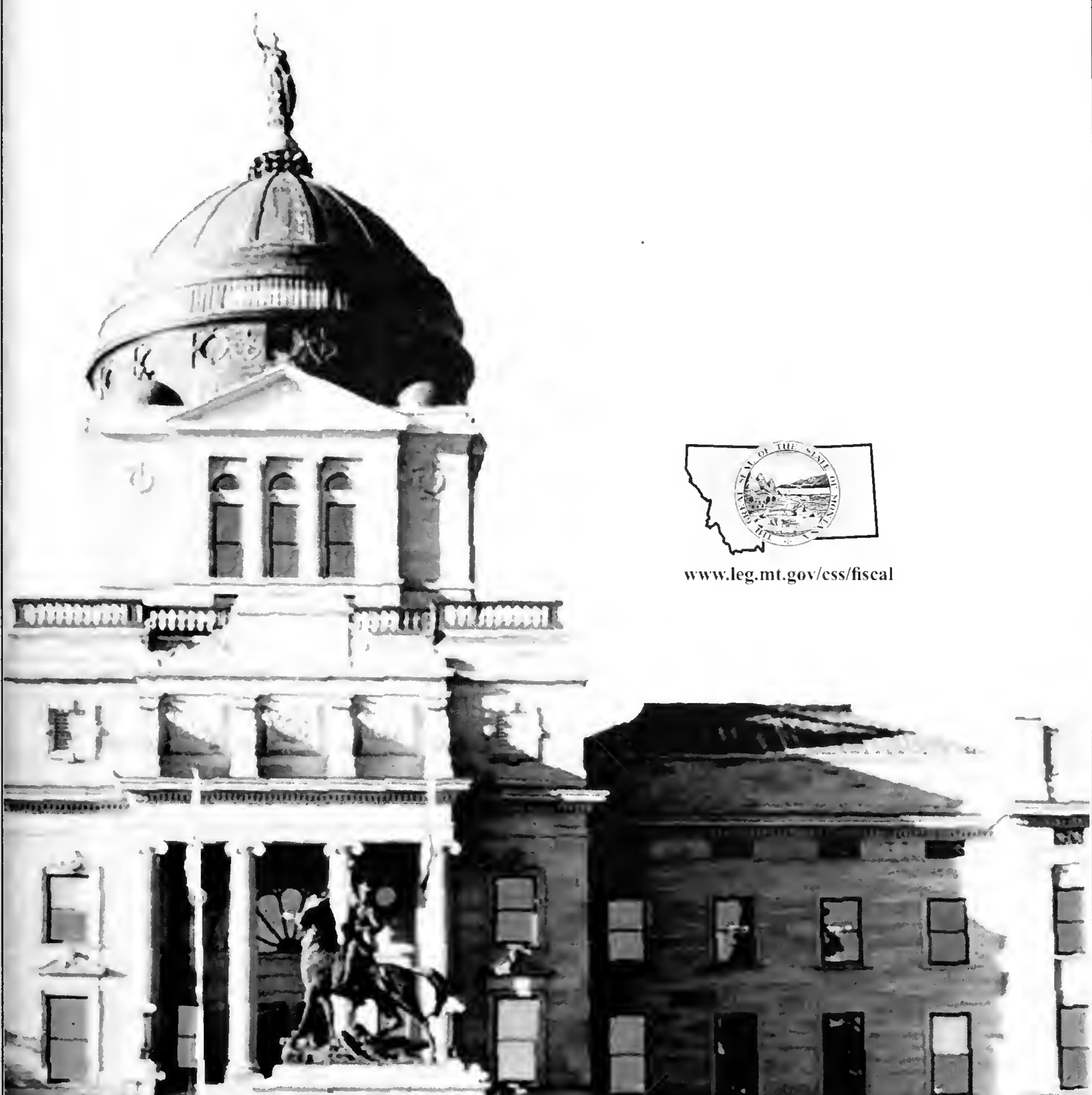
After adjusting the FY 2011 forecast, the executive then extrapolated this to the 2013 biennium. The previously assumed growth rates in FY 2012 and FY 2013 were applied to the new base, FY 2011. It should be noted that no evaluation of the economic conditions that produced the original forecast has been presented. A preferable method would include an analysis of economic conditions.

The resulting revenues for the three year period are as follows:





Perspectives on the Economy and Demographics



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Perspectives on the Economy and Demographics

SUMMARY

The general outlook for the national and Montana economies for the next three years is based on cautious growth with high sensitivity to national and global economic conditions. In particular, commodity prices and demand, interest rates, capital gains, and corporate profits are major drivers that determine a large portion of the state's general fund revenues. Revenues are forecast to increase gradually from FY 2010 levels in FY 2011 through 2013; however, the risks to the forecast—outlined below—are significant and even small changes could result in further revenue decline. In November, the Revenue and Transportation Interim Committee (RTIC) adopted the Legislative Fiscal Division's (LFD) economic assumptions and accompanying revenue estimates. This chapter provides a summary of the key economic indicators and revenue sources used in the revenue estimate.

MAJOR ECONOMIC ASSUMPTIONS USED BY RTIC

As delineated in Section 5-5-227(2)(a), MCA, the RTIC is required to prepare "an estimate of the amount of revenue projected to be available for legislative appropriation." The estimate and underlying assumptions are intended to be used in any estimation of revenue, including the preparation of fiscal notes. By statute, the LFD assists the revenue and transportation interim committee in performing its revenue estimating duties by submitting its recommendations and assumptions. The Office of Budget and Program Planning also presents the executive's revenue estimates.

The three-year general fund revenue estimates between the LFD and the executive were within $45.5 million or 0.87% of each other. However, individual revenue sources, assumptions, and methodologies varied substantially. The RTIC accepted the LFD's estimates; these official estimates and assumptions are contained in HJ 2, the revenue estimate resolution. Following are the major economic assumptions used by the RTIC, as well as the general economic outlook for the 2013 biennium.

KEY RISKS TO ECONOMIC ASSUMPTIONS

Income

As the unemployment rate increases or stabilizes, Montana wage and salary income may decline or increase only modestly. Since the taxes paid on wage and salary income is the largest component of individual income tax revenue (Montana's largest general fund revenue source), even a minimal decline in wage and salary income could have a negative impact on general fund revenue.

Interest Rates

The federal funds rate set by the Federal Reserve is currently at historical lows. This rate cannot get much lower and may increase if inflation shows signs of life. Low interest rates are a double-edged sword in which low rates may stimulate economic activity which potentially increases wage and salary and business income. On the other hand, Montana's earnings from trust funds and excess investable cash decrease fairly quickly at reduced interest rates. Investment income reported for income tax purposes also declines, although this impact can be delayed.

Corporate Profits

In light of the "Great Recession", a significant risk is the impact of the net operating loss (NOL) carry back provisions provided in 15-31-119, MCA. An NOL generally occurs when deductions exceed gross income. If for any taxable period a net operating loss is sustained, the loss must first be accounted for as a carry back to each of the three taxable periods proceeding the taxable period of the loss. If the NOL deductions cannot be fully deducted from the prior years, the remaining deductions may be carried forward to each of the five taxable periods following the taxable period of the loss. Typically, the NOL can be fully deducted through the three period carry back. The loss is deducted against taxes that have usually been paid prior to the period of the loss and refunds are issued for the paid taxes. This situation makes the impact of corporate NOL's on total fiscal year

collections appear even greater than they may have been because much of the effect is realized in the current fiscal year.

Energy Prices

If the global economic recovery continues to be gradual, demand for energy commodities, primarily oil and natural gas, may be slow to recover. Conversely, if a "double dip" recession occurs reduced prices could prevail until a more vibrant economic recovery occurs. Low energy prices could hamper further exploration and development efforts.

Equities

The equity markets can play havoc on state general fund revenues. A significant portion of non-labor income is derived from net capital gains and interest and dividend income. Just because the equity markets are increasing does not necessarily mean state revenue will corresponding increase. In order for a gain to materialize, investors need to sell equities at a higher price than they paid for them. Conversely, investors may sell equities at a loss thereby offsetting other types of income. Losses can be carried forward at $3000 per year until the loss is liquidated.

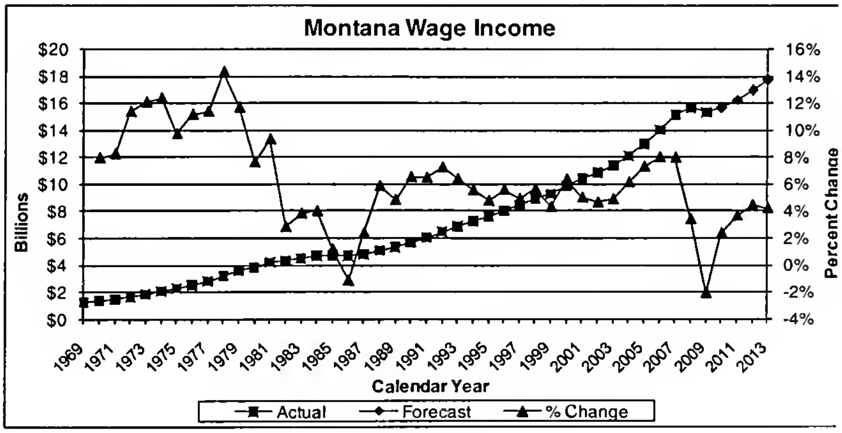
ECONOMIC INDICATORS

The four major economic assumptions the RTIC used to forecast the state's general fund revenue for FY 2011 – FY 2013 are discussed in detail below. These four are: income, interest rates, corporation indicators, and energy prices.

Income

The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process.

Figure 1



Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.1% of total income. In 2009, it contributed 67.3%, or $13.1 billion. The average annual growth in Montana wages and salaries has been 5.4% between 1990 and 2009. Wage growth exceeding this average occurred in the early nineties and again in 2004-2007. In both these periods inflation was relatively high, i.e. greater than 2.5%, and employment growth was relatively high. However, the growth of wages declined sharply to rates of 3.4% and -2.1% in 2008 and 2009 respectively.

As shown in Figure 1, wages are expected to assume a slower rate of growth in the forecast period with growth of 3.7% in 2011, 4.4% in 2012, and 4.2% in 2013.

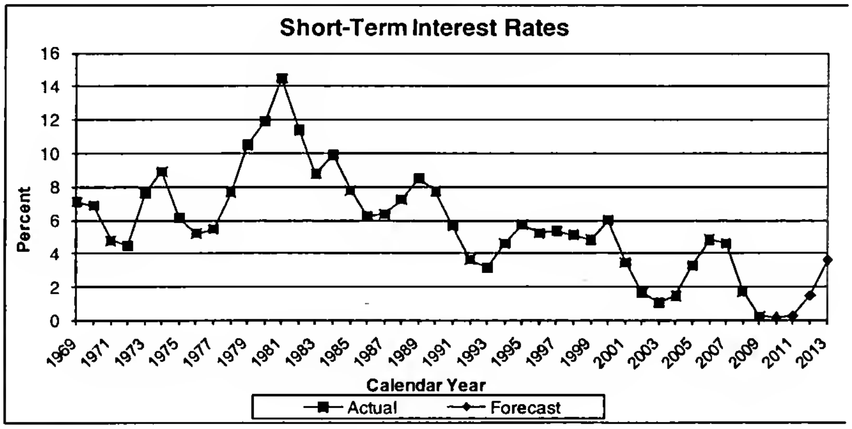
Interest Rates

The federal funds rate set by the Federal Reserve is currently at historical lows. This rate cannot get much lower and may increase if inflation shows signs of life. Low interest rates may stimulate economic activity which potentially increases wage and salary and business income. On the other hand, Montana's earnings from trust funds and excess investable cash decrease fairly quickly at reduced interest rates. Investment income reported for income tax purposes also declines, although this impact can be delayed.

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues.

In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase.

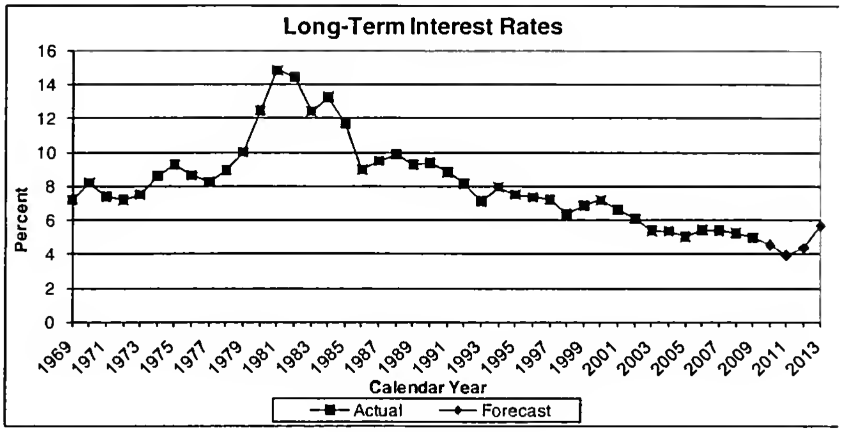
Figure 2



Two types of interest rates, long and short-term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments.

The forecast rates are obtained from IHS. Short-term rates are an average of 3-month corporate paper and 3 and 6-month T-bills. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. The fiscal year computation of short-term interest rates reached unprecedented low rates of 0.2% in 2009 and 0.3% in 2010. The future short-term interest rates are expected to remain low at a rate of 0.3% in 2011 and will increase to 1.5% and 3.6% by 2012 and 2013 respectively. Long-term rates are expected to be 3.9% in 2011, 4.4% in 2012, and 5.7% in 2013, as shown in Figure 3.

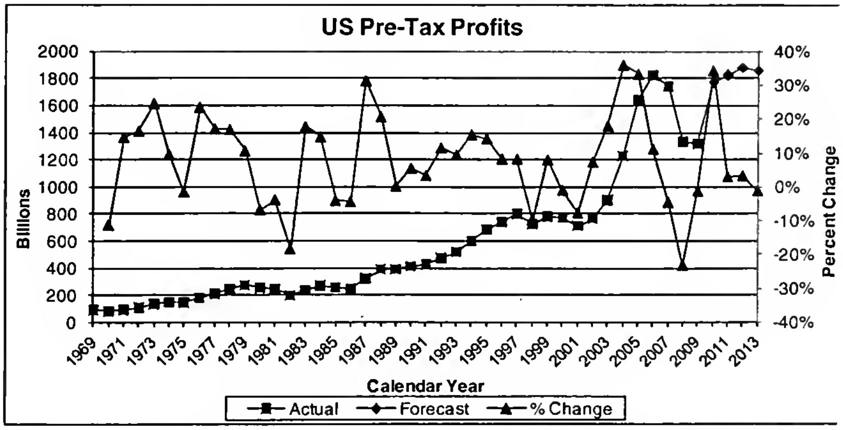
Figure 3



Corporation Indicators

The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments.

Figure 4



During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to IHS, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3%. However, from 1997

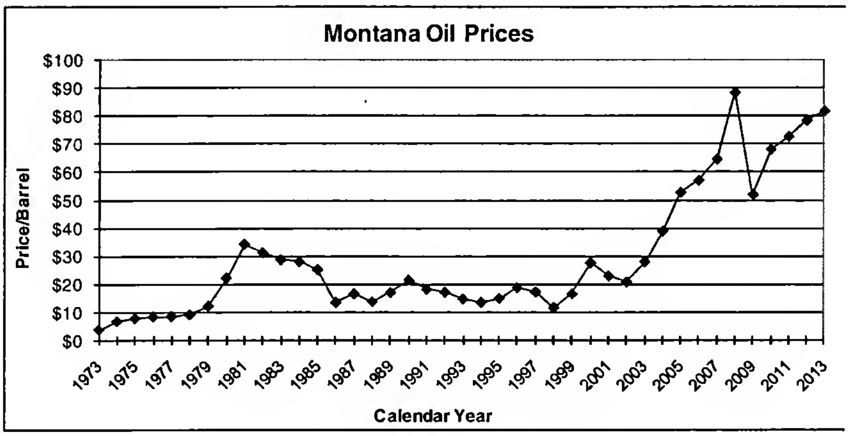
through 2001, profits decreased by an average of 3.0%, the greatest decrease of 8.5% occurring in 2001. Between 2006 and 2010, corporate profitability decreased at an average annual rate of 0.7%. During the forecast period, corporation profits are expected to grow at an average rate of 1.7% annually.

Energy Prices and Production

West Texas Intermediate (WTI) spot oil prices averaged $25.96 per barrel in 2001 and increased every year through 2008. In 2009, the WTI price dropped by 38.1% to $61.77 per barrel, and has subsequently increased to an estimated $77.45 per barrel in 2010. IHS forecasts WTI oil prices to increase to $82.58 in 2011, $89.16 in 2012, and $93.02 in 2013. Montana prices are expected to follow a similar trend.

After a period of decline in oil production, from a peak in 1974 of 34 million barrels to a trough in 1999 of 15 million barrels, the discovery of new oil fields and advances in technologies increased oil production in Montana. New drilling activity increased 75% in 2003, and increased nearly the same amount in 2004. In 2006, the new production hit a peak, with production of over 36 million barrels. Since 2006, oil production has declined and that trend is expected to continue through 2013. Montana oil production is expected to decline to 25 million barrels in 2011, 22 million barrels in 2012, and 20 million barrels in 2013.

Figure 5

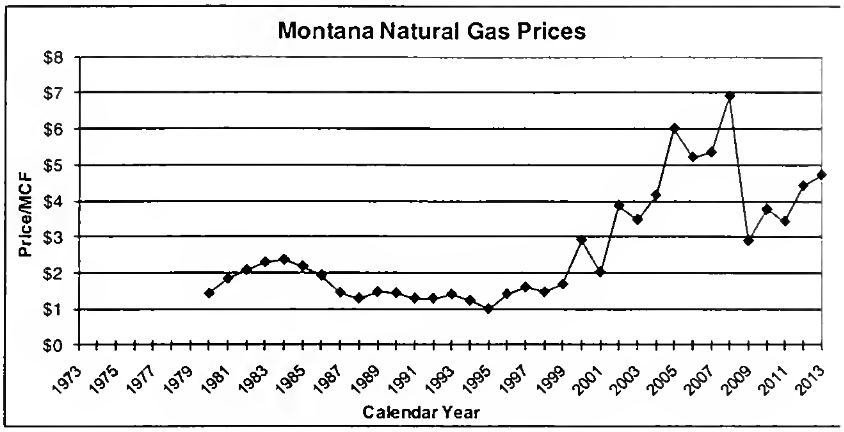


Natural gas prices at the wellhead in the US reached as high as $8.85 per MCF in 2008, but the prices have declined significantly in the past two years. The average price in 2010 is expected to be $4.46 per MCF. IHS is forecasting average well head natural gas prices at $4.18 in 2011, $5.24 in 2011, and $5.57 in 2013. While Montana wellhead prices are usually lower than the US average well head price, Montana prices are expected to follow a similar trend.

Natural gas production in Montana almost tripled between 1981 and 2007, from 40 million MCF to 119 million MCF. Production has increased around 70% since 2000. As in the oil market, new drilling activity was up substantially in 2003 and 2004, but production has started to drop and that trend is expected through 2013. Montana natural

gas production is expected to be 110 million MCF in 2010, 107 million MCF in 2011, 101 million MCF in 2012, and 98 million MCF in 2013.

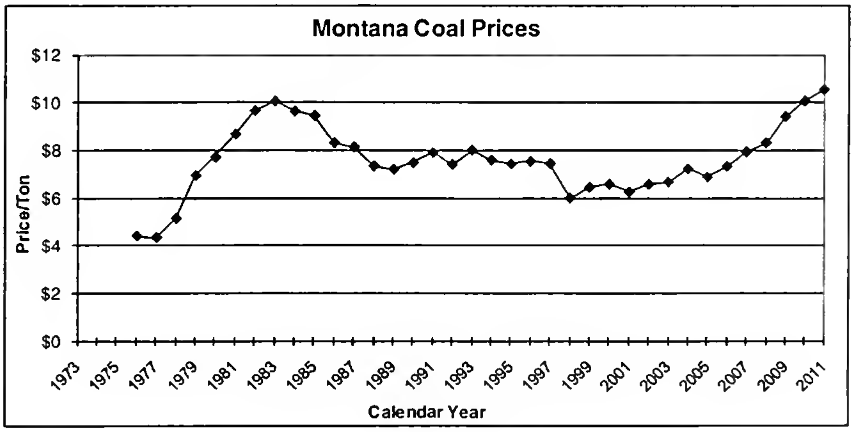
Figure 6



The Montana price for coal remained relatively constant between 1998 and 2006, but has increased since 2006 and is expected to continue increasing over the 2013 biennium as demand for coal grows.

Western U.S. coal production, which has grown steadily since 1970, is expected to continue to increase through 2013. Strong growth, combined with limited improvement in coal mining productivity, is expected to result in average minemouth price increases of 3.5% annually from 2011 through 2013

Figure 7



DEMOGRAPHIC TRENDS

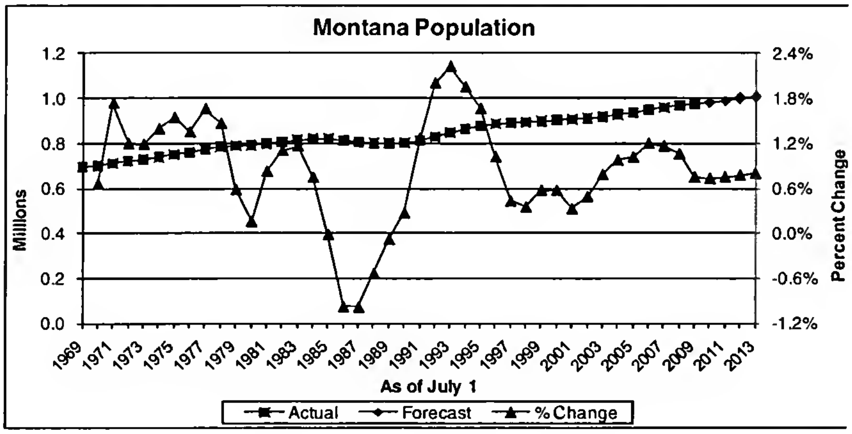
Montana, with a total area of 145,552 square miles, is the fourth largest state. Its population of 974,989 (2009 estimate) places Montana 44th among all 50 states. Montana has 6.2 persons per square mile while the U.S. average is 79.6. A relatively small population in a very large state contributes to Montana being a great place to live, but it also presents many challenges in delivery of government services and in the overall economic well-being of the state.

POPULATION TRENDS

Montana's population has historically demonstrated slow growth. In the 35 years between 1970 and 2009, the annual rate of growth of the state population was 0.9%. Growth through the next biennium, as shown in Figure 8, is estimated at about 0.8% annually.

Population statistics are used to develop estimates for many of the tax revenue sources including beer, wine, liquor, and cigarette taxes. In addition, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide.

Figure 8



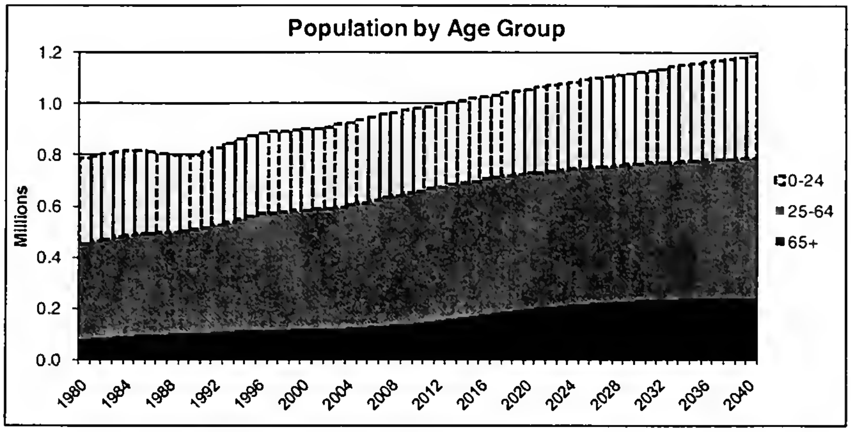
Montana's Aging Population Trend

One of the most significant events beginning to surface in Montana is the projected increase in the aging population. Between 1940 and 2000, the percentage of Montana's population 65 and over doubled, and it is expected to double again by 2030, when Montana will have the fifth highest percentage of population 65 and older in the nation.

There are a couple factors causing the increase of the elderly population. First, according to research performed by George W. Haynes, Myles J. Watts, and Douglas J. Young, in a report titled, *Project 2030 Montana's Ageing Population*, the life expectancy at age 65 increased from 13 years to 19 years between 1940 and 2005. Additionally the

baby-boomer generation, those born between 1946 and 1965, will soon begin to reach the age of 65, swelling the ranks of the elderly. Montana, like other state and local governments, will need to address the issues relative to changing demographics.

Figure 9

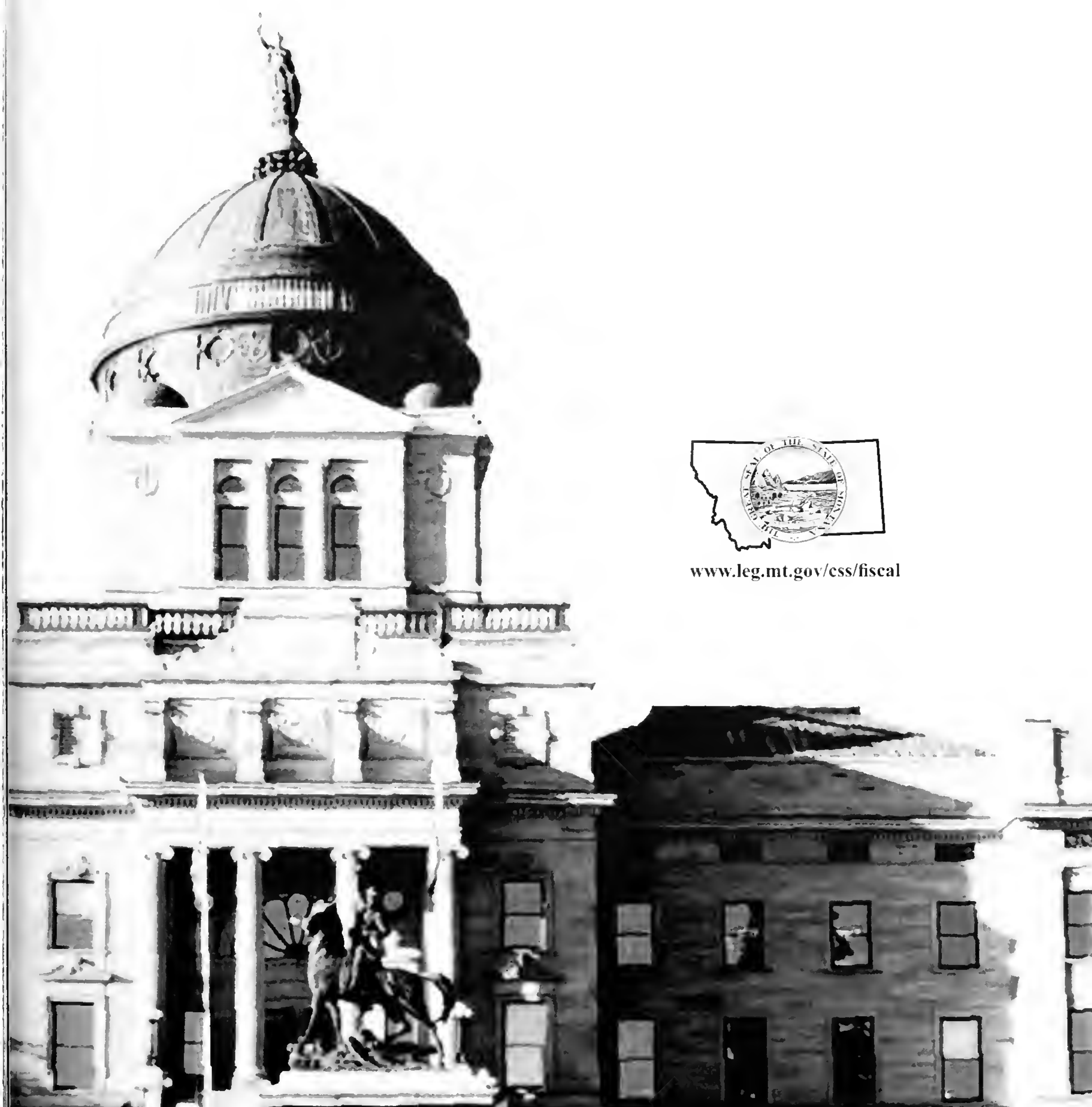


With a growing elderly population, the legislature will eventually need to address how the working-age population can support an older population. Currently, there are estimated to be 3.9 people of working age (persons age 20 through 64) to each retiree (person of age 65 and over). This statistic is expected to decline by 2030, when there will only be 2.6 people of working age to each retiree. The level of income earned by the retired population and ultimately how much they will pay in taxes could have a substantial impact on state government finances.

BUDGETARY IMPACTS

The projected demographic changes have budgetary impacts on both revenues and disbursements. Changes in population directly affect consumption-based revenue sources such as cigarettes, liquor, and driver's licenses, and also impact other tax sources such as income and insurance taxes. As related to state disbursements, the increasing elderly population will require more state provided health related services. The funding of aging services and children's health insurance are two of the primary areas of concern related to demographic changes.

State Revenue Perspectives



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State Revenue Perspectives

Major revenue source contributors to the state general fund (and interrelated state special funds) have experienced deep declines from FY 2008 levels. The revenues declined in FY 2009 and FY 2010. They are expected to increase in FY 2011, but will still be below the FY 2008 level by FY 2013. Rapidly deteriorating economic conditions statewide, nationwide, and worldwide bodes ill for the revenues that finance many state-provided services. Such unprecedented turmoil also complicates the accurate prediction of future revenues and, hence, complicates the budgeting process faced by the legislature. Throughout the 2011 legislative session, LFD revenue staff will periodically update the legislature on changing economic conditions and, if warranted, offer recommendations for amending HJ 2, the official revenue estimates introduced by the Revenue and Taxation Interim Committee (RTIC).

In the sections that follow, the executive's general fund revenue estimates and proposed revenue-related changes are discussed

THE EXECUTIVE'S GENERAL FUND REVENUE FORECAST

EXECUTIVE BUDGET ASSUMPTIONS AND ESTIMATES

The RTIC met on November 19, 2010, and adopted numerous economic assumptions that produced the revenue estimates contained in HJ 2, the revenue estimating resolution. At this meeting, state economists as well as representatives of the executive provided input to the committee with their respective views on Montana's current economic conditions and the outlook for the 2013 biennium. After receiving testimony from the various individuals, the RTIC unanimously adopted the recommendations of the Legislative Fiscal Division staff. These estimates, when compared to the executive, showed a difference for all general fund sources over the three year period FY 2011 through FY 2013 of $45.5 million or 0.87%.

On December 15, 2010, the executive proposed some additional budget adjustments to its November 15 recommendations. Contained in those recommendations were increased revenue estimate adjustments of $118.7 million. The executive revenue

estimates are now $164.2 million (3.1%) more than the estimates adopted by RTIC on November 19, 2010.

These upward revisions were based on year-to-date revenue collections for FY 2011. The executive's view is that economic information such as "predictions of economic growth, oil prices, and the like" is not timely enough, and that this information impacts revenue estimates "only indirectly, not directly." The executive also points out that current revenue collections are a good indicator of what is happening today – "a key data point that is not lagging and that is not a proxy for revenue collections." Although these arguments may have some validity, the following points should be considered before making conclusions that significantly impact the services provided to the citizenry of Montana.

A fundamental principle of revenue estimating is that all revenue sources (taxes, fees, investment earnings, etc.) are driven by underlying economic conditions—conditions that are prevalent at the state, national, or global level. To assume that these conditions have only an "indirect" impact is erroneous. Each revenue source has a set of economic drivers that determines its collection pattern. For example, individual income tax or oil production tax or investment earnings cannot be estimated without understanding the relationship between the revenue and its respective driver—wage income, oil prices, or interest rates—and external economic conditions.

Using year-to-date revenue collections as a validation or reference point is not inappropriate, nor is it new. In fact, this process should be used to verify that the economic relationships and the mathematical models used to determine anticipated revenue collections have been developed appropriately. To abandon the models and revert to a validation technique, however, is inappropriate, prone to non-economic variability, and highly speculative. This would be analogous to a physician deciding to perform a surgical procedure without performing the necessary test to determine what is wrong with the patient. An appropriate revenue estimating process determines what economic conditions are causing the change in year-to-date revenue collections.

The revised revenue estimates by the executive are not based on new or revised economic conditions. The argument is that collections are above last year through November; therefore, collections will to be higher for the remainder of the year. Future revenues are extrapolated from year-to-date collections based on a historical average observed over several years. This new base is higher in FY 2011 than the initial estimate, and FY 2012 and FY 2013 are driven off the higher base year resulting in higher estimates for those two years. This approach disconnects the executive revenue estimates from any quantifiable relationship between economic conditions and anticipated revenue collections.

This technique provides a new executive estimate that is $118.7 million greater than originally estimated just a month ago. The obvious question would be what economic conditions have changed recently that would improve the revenue outlook so dramatically. Has Montana's unemployment rate declined, have oil prices increased substantially, or have interest rates moved upward?

It is clear that the executive methodology is dependent upon an accurate extrapolation of current year trends. If the new base year (FY 2011) is flawed, then the entire forecast period (FY 2011 through FY 2013) is inaccurate. As previously mentioned, using current year collections as a revenue estimating methodology is inappropriate and highly sensitive to historical collection patterns as well as anomalies in current collections. For example, during FY 2010, the Department of Justice was implementing a new computer system (MERLIN) for the processing of motor vehicle fees and taxes. Part of this system was

designed to interface with the state accounting system (SABHRS). This interface was not working correctly during FY 2010 but was eventually corrected by the end of FY 2010. A comparative analysis of collections through November of this year versus last year showed that this year's collections are up almost $30 million or 440% over last year. This increase was due to the interface problem of the new system and had nothing to do with an improvement in economic conditions. Adjusting the comparison analysis for this issue changes the total general fund year to date growth rate from 12.7% to 5.1%. With this one adjustment (there are many others), the adjusted percentage (5.1%) portrays an entirely different revenue picture versus using the unadjusted percentage (12.7%).

The executive shows that, on average, 26.5% of total fiscal year collections are received by the end of November. Using this percentage, it is simple to extrapolate year-to-date collections to a FY 2011 amount of $1,732 million ($459.245 million through November divided by 26.51%). But this calculation is based on the accuracy of the historical percentage and a "normal" amount collected through November. A 1% increase in the historical percentage decreases the FY 2011 extrapolation by $63 million from $1732 million to $1669 million. This small variation in the historical percentage would decrease the total executive revenue estimates for the three year period by $189 million. The probability of a 1% variation in this percentage is high. The standard deviation (a measure of how widely values are dispersed from the average value or mean) is 1.5%. The higher the standard deviation, the greater the variation is in the data series.

In additional to the variability problems associated with a historical percentage, any unusual year to date collections can also skew the FY 2011 extrapolation technique. For every $1.0 million variation in year-to-date collections, the FY 2011 estimate will change by $3.8 million. Other words, if FY 2011 year to date collections were overstated by $10 million by the end of November, the extrapolation technique would produce a higher estimate for FY 2011 of $38 million or $114 million for the three year period.

Finally, any revenue estimating analysis should be focused on understanding what economic conditions determine the level of anticipated revenue. This analysis should include a thorough review of all current economic conditions as well as the outlook for the future. Montana subscribes to national forecasting firms, IHS Global Insight and Moody's Analytics. Both of these companies provide monthly economic updates to staff of the Legislative Fiscal Division as well as the executive. In addition to this information, the Bureau of Business and Economic Research (Missoula), Department of Agricultural Economics (Bozeman), and the Department of Labor and Industry have all provided valuable information and perspectives into the revenue estimating process. It has been made extremely clear by all entities that the current economic recovery is going to be very slow and gradual both at the state and national level. To arbitrarily ignore the wealth of information and justification provided by these professionals should not be ignored by the legislature. If a consistent trend of improved year-to-date revenue collections becomes apparent during the legislative session, the legislature needs to fully understand the economic conditions that are causing the change. These changes can then be amended into HJ2 to provide an appropriate audit trail as well as transparency in the legislative budgeting process. Year-to-date revenue collections are not the reason – they are the result.

As shown in Figure 1 below, the executive has revised its revenue estimates from those presented to the RTIC in November. The revision is based on year-to-date collection activity; the *Governor's Executive Budget, Fiscal Years 2012 – 2013* now projects that

Montana state government will receive $3.684 billion in general fund revenue in the 2013 biennium, an increase of $324.8 million, or 9.7%, from the 2011 biennium.

Figure 1

Executive Revised Revenue Estimate Recommendations - General Fund Figures in Millions								
	Actual FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013	2011 Biennium	2013 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$717.834	$741.072	$767.443	$819.359	$1,458.907	$1,586.802	$127.895	8.8%
Property Tax	222.510	231.464	238.437	242.531	453.974	480.968	26.994	6.0%
Corporation Income Tax	87.901	111.654	125.831	132.679	199.555	258.510	58.954	29.5%
Vehicle Tax and Fees	103.862	107.298	110.491	111.288	211.159	221.779	10.620	5.0%
Oil and Gas Production Tax	95.491	98.223	104.910	110.297	193.714	215.208	21.494	11.1%
Remaining Sources	399.547	404.394	409.993	429.990	803.941	839.983	36.042	4.5%
Upward Revision		37.930	39.370	41.410	37.930	80.780		
Total	$1,627.145	$1,732.035	$1,796.475	$1,887.554	$3,359.180	$3,684.029	$324.849	9.7%

PROPOSED REVENUE-RELATED CHANGES

The Executive Budget contains a number of proposals that would impact state general fund revenue, most of which are on-going in nature. As shown in Figure 2, these proposals would increase general fund by a net $23.8 million in the 2011 biennium and $24.8 million in the 2013 biennium. It should be noted that on-going changes will reduce general fund revenue by $26.5 million in the 2013 biennium and $46.8 million in the 2015 biennium and beyond. The proposals are as follows:

Tax Proposals

- $36.0 million loss in revenue (on-going) due to a credit for homeowners. This proposal would provide a $50 credit to homeowners on their 2011 individual income tax returns and $100 credit in subsequent years.
- $22.0 million loss in revenue (on-going) due to proposed business equipment exemption threshold increase. The proposal would increase the threshold from $20,000 to $200,000 beginning in 2012, and further increase it to $500,000 beginning of 2013. As of this writing, the executive has not determined all the details of the change.
- $5.8 million in new revenue (on-going) due to proposed legislation that would move the corporate statute of limitation from 3 to 5 years to match the law for individuals
- $5.6 million in new revenue (on-going) due to proposed legislation that would require non-residents who sell an interest in a Montana business to report and pay taxes on the gain
- $5.3 million in new revenue (on-going) due to proposed legislation that would counter a number of tax sheltering techniques used by companies to shift income earned in the U.S. to overseas locations

- $5.0 million in new revenue (on-going) due to proposed legislation that would enhance tax compliance
- $4.3 million in new revenue (one-time) due to proposed legislation that would eliminate corporate net operating loss carrybacks
- $4.0 million in new revenue (on-going) due to proposed legislation that would equalize the federal income tax limitations for trusts with the limit for individuals
- $3.0 million in new revenue (on-going) due to proposed legislation that would require withholding on non-residents for sale of property greater than $250,000

Transfers to the General Fund

- HB 5—Long Range Building Program
- HB 10—Long Range IT Program
- HB 11—TSEP
- HB 11—Regional Water
- HB 42—Coal Bed Methane Account
- HB 48—Fire Supression Account
- HB 140—Big Sky Economic Development
- Natural Resource Damage
- Health Care & Benefits

Additional details of these transfers can be found in Chapter 6—Major Issues *Facing the Legislature.*

State Special Revenue Changes

Oil and Gas Proposal

The executive proposes to remove the payment of the quality educator payment from the state general fund and pay for it from a new state special revenue fund called the Teach Montana Fund, beginning in FY 2012. The revenue to pay for this payment would come from oil and natural gas revenues that currently are distributed to school districts. The executive proposes to reduce the school districts' shares by an average of 90 percent and readjust the other distribution percentages so that the state general fund, other state accounts, county governments, and county education accounts receive the same revenue as under current law.

The executive does not say how much revenue this would generate for the Teach Montana fund. The table below shows actual receipts by school districts in all school funds of oil and gas revenues between FY 1997 and FY 2010. There were only two years in which total revenues equaled or exceeded the amount of revenue needed to fully fund the quality educator payment at $38.3 million per year. During FY 2010, ninety percent of oil and gas revenues would have supplied only $30.2 million to the Teach Montana fund.

Historical Oil and Natural Gas Revenues Received by School Districts, All Funds, FY 1997 - FY 2010		
FY	Total Oil and Gas Revenues to School Districts	Ninety Percent of District Oil and Gas Revenues
1997	8,081,678	7,273,510
1998	8,581,361	7,723,225
1999	5,621,092	5,058,983
2000	7,089,591	6,380,632
2001	17,452,041	15,706,837
2002	13,457,837	12,112,053
2003	9,491,882	8,542,694
2004	16,944,595	15,250,135
2005	22,171,246	19,954,121
2006	34,744,530	31,270,077
2007	39,927,913	35,935,122
2008	47,242,301	42,518,071
2009	64,305,279	57,874,751
2010	33,593,529	30,234,176

However, revenue estimates for oil and gas revenues adopted by RTIC on November 19, 2010 imply that oil and gas revenues received by school districts under current law may be between $38 million and $40 million in FY 2011 through FY 2013. Ninety percent of these estimates would not fully fund the quality educator fund.

The executive's proposal begins the redistribution of oil and gas revenues beginning with revenue from production that takes place in the 2nd calendar quarter of 2011. Because of this, the additional oil and gas revenues received by the state will represent 5 quarters of receipts in FY 2012 and 4 quarters in fiscal years after that. The additional oil and gas revenue is estimated to be $45.4 million in FY 2012 and $35.6 million in FY 2013. This totals $81.0 million for the 2013 biennium, which would be enough to pay for the quality educator payment in the 2013 biennium. However, it is expected that in the 2015 biennium, oil and gas revenues would only total $61.5 million.

School Districts with Oil and Gas Revenue FY 2010 Oil and Gas Revenue as a Percentage of Maximum General Fund Budget				
O&G Revenue as Percent of Maximum Budget	Number of Districts	Percent of Total	Average Size of District	Average Ending Fund Balances per ANB
Less then 0.1 percent	14	11%	290	2,087
0.1 percent - 10 percent	76	58%	222	3,904
10.1 percent to 50 percent	23	18%	142	5,445
50.1 percent to 75 percent	3	2%	64	30,234
75.1 percent to 100 percent	4	3%	115	10,254
100.1 percent to 200 percent	6	5%	124	27,385
200.1 percent to 300 percent	1	1%	408	92,027
Greater than 300 percent	3	2%	31	170,997
Total and Average	130	100%	201	6,751
EFB is for all fund but excludes miscellaneous programs fund and impact aid fund				

There are 130 school districts in 33 counties that received at least some oil and gas revenue in FY 2010. Most of the districts along the northern tier of counties produce predominantly natural gas and most of the districts in eastern Montana produce predominantly oil.

Most of the districts that receive oil and gas receive only a small amount of revenue. The chart above shows several categories measured as oil and gas revenues received in FY 2010 as a percent of a district's FY 2010 maximum general fund budget. Of the 130 school districts receiving oil and gas revenues, 90 districts, or 69%, report oil and gas revenues at or below 10% of their maximum budgets. An additional 26 districts report that oil and gas revenues are between 10% and 75% of their maximum budgets. Fourteen districts, or 11%, report oil and gas revenues in excess of 75% of maximum budgets. Three of these district report oil and gas revenues in excess of 300% of their maximum budgets. These three are all in Richland County and are small districts.

On average, all the districts receiving oil and gas revenues are small. The largest with substantial oil and gas revenues are Sidney high school (430 ANB) and Baker K-12 (408 ANB).

The chart also shows ending fund balances for each category of oil and gas revenues as a percent of maximum budget. Ending fund balances include all school district funds except those that receive primarily federal funds, the miscellaneous program fund and the impact aid fund. There appears to be a positive correlation between substantial receipts of oil and gas revenues and ending fund balances in district accounts.

The executive's proposal to fund the quality educator payment with redistributed oil and gas revenues puts the quality educator payment at risk should either oil and natural gas prices decrease and/or production declines. Regardless of which fund the quality educator payment is made from, current law requires it must be paid. If the oil and gas revenue from the districts is not sufficient, there will have to be a supplemental from the general fund in the 2013 session to pay for the shortfall.

Streambed Rent fund switch

HB 152 from the 2009 legislative session directed that streambed rents, rents owed to the state by the owners of dams for the property the dam and the reservoir behind it sit on, be deposited in the school facility and technology account beginning in FY 2012. Currently, streambed rents are deposited in the guarantee account and provide revenue for K-12 BASE aid.

The executive proposes to continue deposition of streambed rents into the guarantee account through FY 2013. The executive calls this a "transfer" of $20 million during the 2013 biennium. Currently only Avista and Pacificorp pay approximately $4.1 million per year (growing with inflation) into the school facilities and technology account. PPL, the other company with substantial dam property, has not paid the state because PPL has sued over the issue.

In PPL Montana, LLC v. State, 2010 MT 64, the Montana Supreme Court determined that title to the riverbeds of the Missouri, Clark Fork, and Madison Rivers passed to Montana when it became a state in 1889. As part of the decision, the Court upheld the District Court's methodology of calculating damages, and PPL was ordered to pay approximately $41 million (plus interest) in compensatory damages to the state for improper use of the streambed. PPL subsequently filed a petition with the US Supreme Court, asking it to hear the case. On November 1, 2010, the US Supreme Court referred the case for comment to the US Solicitor General. The case remains at the Office of the Solicitor General at this time.

If calculated in accordance with the way streambed rents are calculated for Avista and Pacificorp, the ongoing revenue due if PPL loses the case would amount to around $6.7 million per year, with an inflation adjustment each year. The combined stream-bed rents would amount to around $10.9 million per year. If PPL loses and the executive's proposal passes, this money would be deposited in the guarantee account in FY 2012 and FY 2013 and be available to offset general fund in paying for K-12 BASE aid. It would then be deposited in the school facility and technology account in FY 2014 and beyond.

If PPL wins their case, it is likely that no streambed revenues will be forthcoming from Avista and Pacificorp.

Figure 2 summarizes the executive's tax and revenue proposals. As shown at the bottom of Figure 2, the executive is proposing $75.2 million of one-time transfers for the three-year period, FY 2011 through FY 2013. These transfers can be problematic for maintaining a structural balance.

The executive also proposes to permanently reduce revenue—beginning at a cost of $26.5 million in the 2013 biennium and growing to a cost of $46.8 million in the 2015 biennium. From a structural balance perspective, the difference ($20.3 million) will need to be budgeted for by the 2013 legislature.

Finally, the state special revenue changes proposed by the executive show that $28.1 million less revenue will be available to fund schools in the 2015 biennium. Between the tax proposals and the school funding proposal, there will be $48.4 million less revenue available to fund government services. This budgeting strategy exacerbates the structural balance issue for the 2013 legislature

Figure 2

Executive Tax and Revenue Proposals
Figures in Millions

Proposal	2011 Biennium	2013 Biennium	2015 Biennium
Tax Proposals			
Tax cut for homeowners		($22.040)	($27.000)
Revise business equipment tax		(36.000)	(48.000)
Revise corporate tax audit advantage		5.800	5.800
Eliminate Nevada tax dodge		5.600	5.600
Eliminate foreign country tax shelter		5.300	5.300
Enhanced tax compliance package		5.000	6.000
Eliminate corporate net operating loss carryback		4.300	0.000
Technical fix to SB 407 (2003 Session)		4.000	4.000
Non-resident high-value real estate withholding		1.500	1.500
Net tax proposals		(26.540)	(46.800)
Transfers to the General Fund			
HB 5 - Long Range Building Program	$11.686	0.000	0.000
HB 10 - Long Range IT Program	10.737	0.000	0.000
HB 11 - TSEP	0.000	17.614	0.000
HB 11 - Regional Water	0.000	4.867	0.000
HB 140 - Big Sky Economic Development	0.000	2.890	0.000
HB 42 - Coal Bed Methane Account	0.000	6.000	0.000
HB 48 - Fire Supression Account	0.000	20.000	0.000
No Bill - Natural Resource Damage	1.300	0.000	0.000
No Bill - Health Care & Benefits	0.100	0.000	0.000
Transfers subtotal	23.823	51.371	0.000
State Special Revenue Changes			
HB 136 - Streambed rent reallocation*		8.560	
HB 136 - Local school district oil and gas redistribution		81.027	61.492
State special revenue subtotal		89.587	61.492
Total General Fund	23.823	24.831	(46.800)
On-going		(26.540)	(46.800)
One-time-only	23.823	51.371	0.000
Total State Special		89.587	61.492
Total	$23.823	$114.418	$14.692

*Does not include the additional revenues in the pending PPL court case. Potential revenue is $12.790 million in the 2013 biennium.

THE RTIC GENERAL FUND REVENUE OUTLOOK

RTIC FORECAST IS LOWER THAN THE EXECUTIVE BUDGET

A summary of the major revenue estimates that were adopted by RTIC (contained in HJ 2) is shown in Figure 3 below. The estimate for the 2013 biennium is $280.5 million more than the 2011 biennium estimate. All major sources and the remaining sources collectively

are forecast to increase; however, most sources are growing only gradually and the risks to growth outlined in the previous chapter must be considered.

Figure 3

HJ 2 Revenue Estimate Recommendations - General Fund
Figures in Millions

	Actual FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013	2011 Biennium	2013 Biennium	Biennial $ Change	Biennial % Change
Individual Income Tax	$717.834	$738.761	$781.891	$825.590	$1,456.595	$1,607.481	$150.886	10.4%
Property Tax	222.510	229.084	237.809	242.859	451.594	480.668	29.074	6.4%
Corporation Income Tax	87.901	103.320	123.315	128.179	191.221	251.494	60.273	31.5%
Vehicle Tax and Fees	103.862	107.025	106.615	106.999	210.887	213.614	2.727	1.3%
Oil and Gas Production Tax	95.491	101.421	101.803	100.119	196.912	201.922	5.010	2.5%
Remaining Sources	399.547	392.522	402.334	422.217	792.069	824.551	32.482	4.1%
Total	$1,627.145	$1,672.133	$1,753.767	$1,825.963	$3,299.278	$3,579.730	$280.452	8.5%

As shown in Figure 4, the RTIC revenue estimates for the 2011 and 2013 biennia are $59.9 million and $104.3 million lower, respectively, than the revised executive estimates. This is due primarily to the executive's revision based on year-to-date collections. The RTIC estimates for individual income and corporation income taxes appear to have significant differences from the executive; however, nearly all of the difference can be attributed to the categorization of partnership income.

Figure 4

RTIC vs. Executive Revised Revenue Estimate Recommendations - General Fund
Figures in Millions

	Actual FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013	2011 Biennium	2013 Biennium
Individual Income Tax	($0.000)	($2.311)	$14.448	$6.231	($2.312)	$20.679
Property Tax	0.000	(2.380)	(0.628)	0.328	(2.380)	(0.300)
Corporation Income Tax	0.000	(8.334)	(2.516)	(4.500)	(8.334)	(7.016)
Vehicle Tax and Fees	0.000	(0.273)	(3.876)	(4.289)	(0.272)	(8.165)
Oil and Gas Production Tax	0.000	3.198	(3.107)	(10.178)	3.198	(13.286)
Remaining Sources	(0.000)	(11.872)	(7.659)	(7.773)	(11.872)	(15.432)
Exec. Upward Revision		(37.930)	(39.370)	(41.410)	(37.930)	(80.780)
Total	$0.000	($59.902)	($42.708)	($61.591)	($59.902)	($104.299)

RTIC Forecast for Major General Fund Revenue Sources

This section presents the details on five of the major general fund revenue sources that comprise 75.5% of the total general fund revenue. Additional details of these and other revenue sources, including assumptions and analytical methods used to estimate each source, can be found in the LFD *Legislative Budget Analysis 2013 Biennium, Volume 2 – Revenue Estimates.*

Individual Income Tax

Background

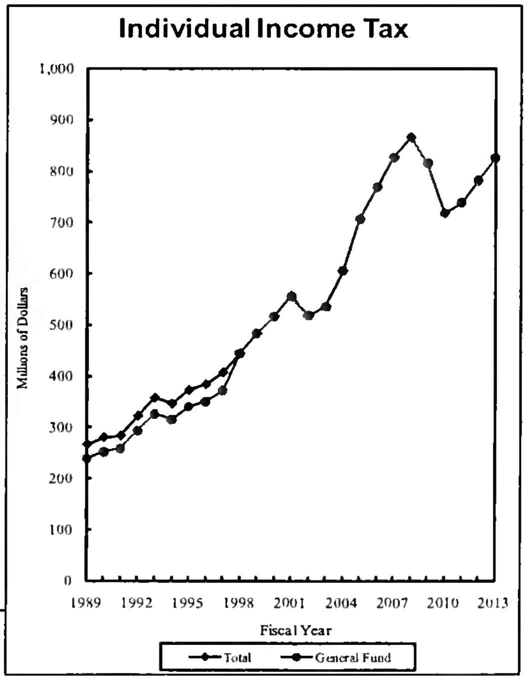
The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits. Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result, the tax rate on capital gains income is less than the tax rate on ordinary income by 1% in tax years 2005 and 2006, and by 2% in tax year 2007 and beyond.

Percent of total general fund revenue

FY 2004 – 43.82% FY 2007 – 45.04% FY 2010 – 44.12%
FY 2005 – 46.13% FY 2008 – 44.17%
FY 2006 – 45.01% FY 2009 – 45.09%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	265.539814	238.963596	Not App.
A	1990	279.642960	252.230465	5.55%
A	1991	282.960086	258.216424	2.37%
A	1992	321.538093	293.564151	13.69%
A	1993	356.986934	326.187735	11.11%
A	1994	345.643403	315.677433	-3.22%
A	1995	371.902909	339.939156	7.69%
A	1996	383.091612	350.161013	3.01%
A	1997	406.275740	371.275410	6.03%
A	1998	444.160729	444.160729	19.63%
A	1999	483.031571	483.031571	8.75%
A	2000	516.261912	516.261912	6.88%
A	2001	556.014554	556.014554	7.70%
A	2002	517.567691	517.567691	-6.91%
A	2003	535.830664	535.830664	3.53%
A	2004	605.582309	605.348420	12.97%
A	2005	707.343333	706.234579	16.67%
A	2006	768.922343	768.922343	8.88%
A	2007	827.145498	827.145498	7.57%
A	2008	866.658538	866.658538	4.78%
A	2009	815.138193	815.138193	-5.94%
A	2010	717.834371	717.834371	-11.94%
F	2011	738.761000	738.761000	2.92%
F	2012	781.891000	781.891000	5.84%
F	2013	825.590000	825.590000	5.59%



Forecast Factors

The income tax forecast for FY 2011 through 2013 began with obtaining actual calendar year 2009 income data from the tax returns. Calendar year growth factors were developed for each income and deduction component, applied to the base components in the 2009 income tax data, and run through the simulation model to produce a forecast of calendar year resident tax liability.

After accounting for non-resident liability and credits, the calendar year data was converted to fiscal year data and subsequently adjusted for audits, legislation and other special events.

In November 2010, the Revenue and Transportation Interim Committee met and developed the assumptions and the resulting revenue forecast for all state revenues. Many of the income tax growth factors were based on IHS October forecasts for wages disbursements, interest rates, corporate profits, S&P 500 stock index, oil prices, and other economic indicators.

The assumptions used in developing the income tax forecast can be found in the LFD *Legislative Budget Analysis 2013 Biennium, Volume 2 – Revenue Estimates.*

Property Tax

Background

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vocational technology (vo-tech) college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the six-year reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. The last reappraisal cycle took effect January 1, 2009.

The 2009 reappraisal showed that the market value of residential property rose 55.1%, commercial property values rose 34.5%, agricultural values rose 26.8%, and timberland values rose 51.7%. The legislature through combination of phased-in reductions in tax rates and phased-in increases in exemptions mitigated these increases over the six-year cycle, so that the only increases in the these tax bases will be the addition of new property, the destruction of existing property, or reclassification of property.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

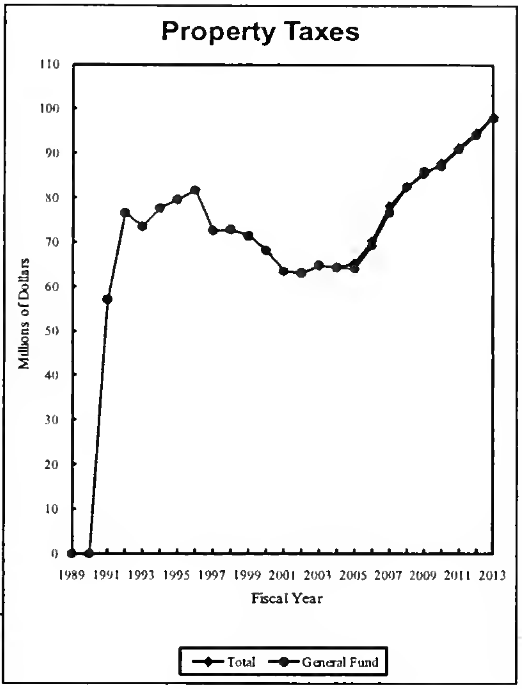
This source also includes the state's share of protested taxes paid by centrally assessed companies. Should the state fail in defense of the taxation of these companies, the protested taxes must be returned to the taxpayer.

Percent of total general fund revenue

FY 2004 – 12.27%	FY 2007 – 10.74%	FY 2010 – 13.68%
FY 2005 – 10.93%	FY 2008 – 11.53%	
FY 2006 – 10.40%	FY 2009 – 12.01%	

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	114.444609	114.444609	Not App.
A	1990	133.619694	112.374543	-1.81%
A	1991	196.551532	176.154583	56.76%
A	1992	228.220531	206.138029	17.02%
A	1993	231.757476	207.646372	0.73%
A	1994	223.577122	202.381945	-2.54%
A	1995	226.944990	205.842671	1.71%
A	1996	226.234755	204.082588	-0.86%
A	1997	231.943080	209.284365	2.55%
A	1998	224.562154	202.350380	-3.31%
A	1999	225.681256	202.774979	0.21%
A	2000	215.866432	194.196158	-4.23%
A	2001	201.103545	180.050247	-7.28%
A	2002	181.923409	169.339388	-5.95%
A	2003	183.690786	171.679862	1.38%
A	2004	180.905286	169.530994	-1.25%
A	2005	182.587822	167.270350	-1.33%
A	2006	192.118042	177.639199	6.20%
A	2007	206.872427	190.981939	7.51%
A	2008	218.222981	205.043751	7.36%
A	2009	229.945033	217.042057	5.85%
A	2010	239.055986	222.509767	2.52%
F	2011	245.192891	229.084000	2.95%
F	2012	254.491498	237.809000	3.81%
F	2013	260.081757	242.859000	2.12%



Forecast Factors

The property tax forecast for FY 2011 through 2013 is comprised of five steps: 1) collect the latest base year data, in this case FY 2011 taxable values, 2) apply taxable value growth rates to the base data for FY 2012 and 2013 and sum across property classes, 3) forecast statewide tax increment financing values and abatement values and adjust the statewide taxable value forecast by these values, 4) for the general fund, apply the state 95 mills, to the net statewide taxable value and 5) subtract one-half of the forecast for protested taxes. The same procedure is applied for the 1.5 mill vo-tech levy which is also deposited in the general fund and the 6 mill university levy which is deposited in the university account. The 1.5 mill vo-tech levy is applied to the net taxable values in the five vo-tech counties.

Corporation Income Tax

Background

The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all tax liability is adjusted for allowable credits. The tax rate is 6.75%, except for

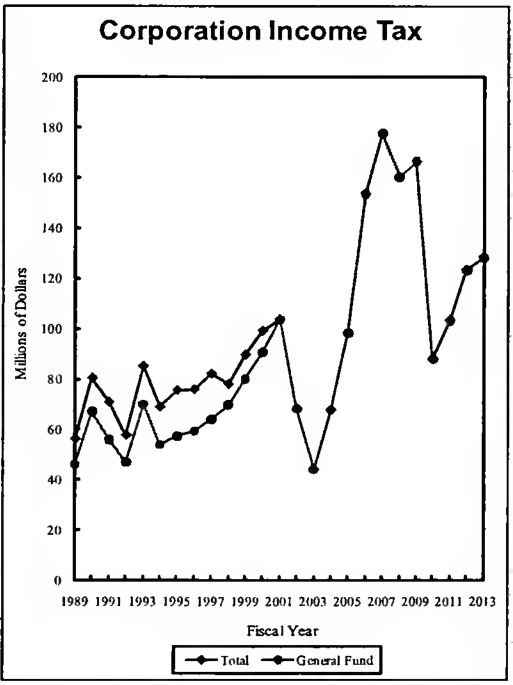
corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

Percent of total general fund revenue

FY 2004 – 4.90%	FY 2007 – 9.67%	FY 2010 – 5.40%
FY 2005 – 6.42%	FY 2008 – 8.17%	
FY 2006 – 9.00%	FY 2009 – 9.20%	

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	56.139749	46.152627	Not App.
A	1990	80.315504	67.087905	45.36%
A	1991	70.784279	56.006784	-16.52%
A	1992	57.682672	47.027797	-16.03%
A	1993	85.054483	70.003987	48.86%
A	1994	68.871909	53.996713	-22.87%
A	1995	75.519940	57.425136	6.35%
A	1996	75.761891	59.336677	3.33%
A	1997	81.999138	64.078549	7.99%
A	1998	77.928498	69.724680	8.81%
A	1999	89.624560	80.142416	14.94%
A	2000	99.088867	90.682672	13.15%
A	2001	103.670487	103.670487	14.32%
A	2002	68.173253	68.173253	-34.24%
A	2003	44.137518	44.137518	-35.26%
A	2004	67.722940	67.722940	53.44%
A	2005	98.213716	98.213716	45.02%
A	2006	153.675068	153.675068	56.47%
A	2007	177.503707	177.503707	15.51%
A	2008	160.341786	160.341786	-9.67%
A	2009	166.354514	166.354514	3.75%
A	2010	87.900911	87.900911	-47.16%
F	2011	103.320000	103.320000	17.54%
F	2012	123.315000	123.315000	19.35%
F	2013	128.179000	128.179000	3.94%



Forecast Factors

The corporation tax is extremely reactive to national economic swings. Historic collection patterns demonstrate that in periods of national recession, Montana corporate tax revenues decline for two to three years. In FY 2010, with a national economy in the midst of "the great recession", corporation tax revenues experienced a significant decline of 47.2%. Although the economy is showing signs of recovery, many economists urge constraint, as this recovery is not anticipated to take the course of high and rapid growth experienced in past recoveries.

To estimate corporation tax collections, corporation tax payment data, provided by the Department of Revenue, is disaggregated based on corporate industrial sector, allowing analysis of specific components of the corporate landscape. Then, each sector can be analyzed, measured, and forecast individually. Through this methodology, the profitability changes inherent in highly volatile sectors can be captured. For example, the profitability of

Montana's large and volatile natural resource corporations is highly reactive to commodity prices, and the volatility affects the corporation tax payments of oil and gas, energy, mining, and timber corporations.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent tax year collections, 2008. The industrial sectors are then summed to provide an estimate for the tax year corporation tax liabilities. Because the industrial sector estimates are based on a tax year analysis, but are paid in a state fiscal year, payment timing must be taken into consideration. The estimated tax year payments of three years are distributed between two fiscal years, 5:53:42, to obtain the fiscal year liability ($0.05 \times TY1 + 0.53 \times TY2 + 0.42 \times TY3 = FY3$).

Vehicle Tax

Background

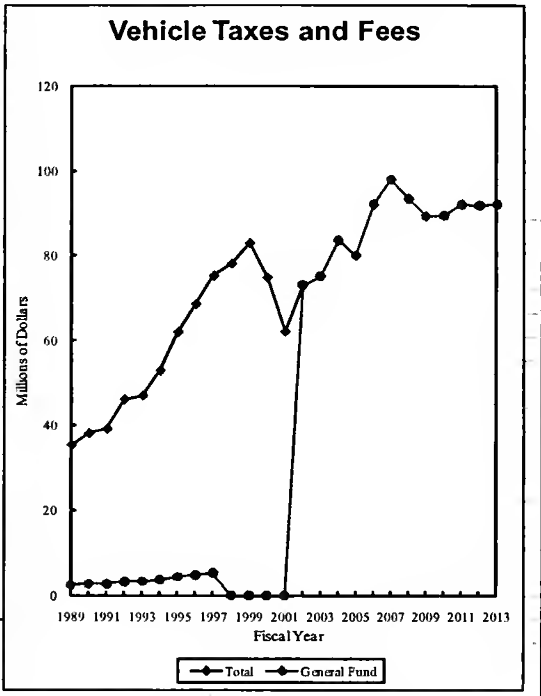
Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, and truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight. The fee for light vehicles is $195 for ages between zero and four years, $65 for vehicles between five and ten years of age, and $6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay $87.50 (plus other applicable fees) for a permanent registration. The fee schedule for trucks varies by age and weight capacity. The fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership.

Percent of total general fund revenue

FY 2004 – 8.27%	FY 2007 – 6.54%	FY 2010 – 6.38%
FY 2005 – 7.23%	FY 2008 – 6.33%	
FY 2006 – 6.63%	FY 2009 – 5.79%	

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	40.139702	2.471472	Not App.
A	1990	44.232002	8.869602	258.88%
A	1991	46.947105	10.582218	19.31%
A	1992	56.247735	13.378654	26.43%
A	1993	56.358436	12.670105	-5.30%
A	1994	62.629657	13.424539	5.95%
A	1995	71.925382	14.238226	6.06%
A	1996	78.442141	14.605759	2.58%
A	1997	85.645500	15.588374	6.73%
A	1998	88.988649	10.778306	-30.86%
A	1999	94.058206	11.053035	2.55%
A	2000	86.666587	11.715716	6.00%
A	2001	74.720471	12.548251	7.11%
A	2002	100.548823	100.398624	700.10%
A	2003	104.092316	103.537563	3.13%
A	2004	115.208780	114.330455	10.42%
A	2005	111.494279	110.771948	-3.11%
A	2006	114.000647	113.292384	2.28%
A	2007	117.211161	116.471506	2.81%
A	2008	113.108912	112.487931	-3.42%
A	2009	105.240081	104.679977	-6.94%
A	2010	104.401578	103.861549	-0.78%
F	2011	107.587000	107.025000	3.05%
F	2012	107.175000	106.615000	-0.38%
F	2013	107.561000	106.999000	0.36%



Forecast Factors

With constant tax rates, the future change in vehicle tax revenue results from change in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the revenues are made by applying estimated growth rates to the previous year revenue. Growth rates for the stock of Montana vehicles are derived by obtaining IHS estimates for the national vehicle stock, and new car sales nationwide and for Montana. A ratio is then developed to project the stock of Montana vehicles. An average of the Montana stock in the current and previous years is used in this estimate from which growth between two years is calculated. For the estimated period, revenue is expected to increase in FY 2011, decline slightly in FY 2012, and increase slightly in FY 2013. The growth rate is applied to the base year (FY 2010) revenues of each tax category and projected for all estimated fiscal years based on the stock ratio for Montana.

Oil and Natural Gas Production Tax

Backgound

The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production.

The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or

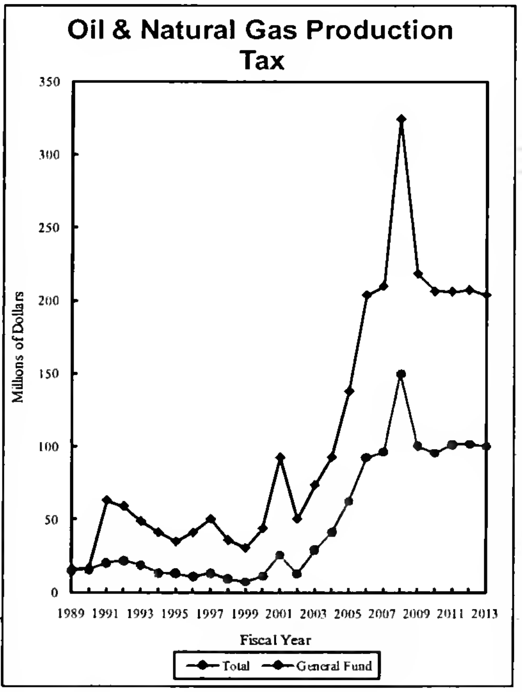
after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates. Starting October 2006 as set by the Board, the P&L tax rate is 0.09%. Based on this rate, HB 758 enacted by the 2005 legislature allows an additional tax rate of 0.17% to generate revenue for local impacts for local governments. The two taxes may not exceed 0.3%.

Percent of total general fund revenue

FY 2004 – 2.99% FY 2007 – 5.25% FY 2010 – 5.87%
FY 2005 – 4.09% FY 2008 – 7.64%
FY 2006 – 5.42% FY 2009 – 5.56%

Revenue Forecast

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	15.748241	14.959251	Not App.
A	1990	16.486405	15.567426	4.07%
A	1991	62.879742	20.163269	29.52%
A	1992	58.892324	21.822893	8.23%
A	1993	48.650604	18.676586	-14.42%
A	1994	40.871318	13.403408	-28.23%
A	1995	34.704332	12.963887	-3.28%
A	1996	40.826475	10.665986	-17.73%
A	1997	50.150068	13.283093	24.54%
A	1998	35.709042	9.120152	-31.34%
A	1999	30.446634	7.505617	-17.70%
A	2000	43.772950	11.362741	51.39%
A	2001	92.395790	25.791723	126.99%
A	2002	50.303610	12.902439	-49.97%
A	2003	73.389376	29.086038	125.43%
A	2004	92.676050	41.323718	42.07%
A	2005	137.754331	62.625939	51.55%
A	2006	203.681078	92.562800	47.80%
A	2007	209.946350	96.334992	4.08%
A	2008	324.311270	149.993826	55.70%
A	2009	218.425215	100.490971	-33.00%
A	2010	206.286267	95.490812	-4.98%
F	2011	206.132000	101.421247	6.21%
F	2012	207.277000	101.803362	0.38%
F	2013	203.815000	100.119249	-1.65%



Forecast Factors – Oil

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well. IHS provides future estimates of West Texas Intermediate oil and national well head natural gas prices. Production, price, value, and revenue collections, by oil type, are provided on a quarterly basis by the Department of Revenue.

The significance of the Elm Coulee oil field to Montana's revenue has decline considerably since 2006. Declining production and the increase in the type of production no longer subject to the tax holiday has put this field more on par with

most other fields in Montana. Accordingly, the revenue estimate methodology for this revenue source has been changed from previous years. Historical production from nine of the greatest producing fields, including Elm Coulee, was estimated separately and either a production decline or growth curve developed for each one. Production from all other fields was combined into a single "field" and a production curve developed. For each of the 10 fields, future production was projected based on the production curve for each one. Forecast production from each field was summed to obtain total forecast production. An applied tax rate was developed to capture the effects of the various tax rates from various production types and applied to total production to derive the forecast revenue.

The price for each quarter is estimated by adjusting the IHS West Texas Intermediate oil price for that quarter by the ratio of the previous three-year average Montana price to the three-year average of the IHS price.

Forecast Factors – Natural Gas

The revenue estimate methodology for natural gas is similar to that of oil. Accordingly, the revenue estimate methodology for this revenue source has been changed from previous years. Historical production from 17 of the greatest producing fields, including Elm Coulee, was estimated separately and either a production decline or growth curve developed for each one. Production from all other fields was combined into a single "field" and a production curve developed. For each of the 18 fields, future production was projected based on the production curve for each one. Forecast produce from each field was summed to obtain total forecast production. An applied tax rate was developed to capture the effects of the various tax rates from various production types and applied to total production to derive the forecast revenue.

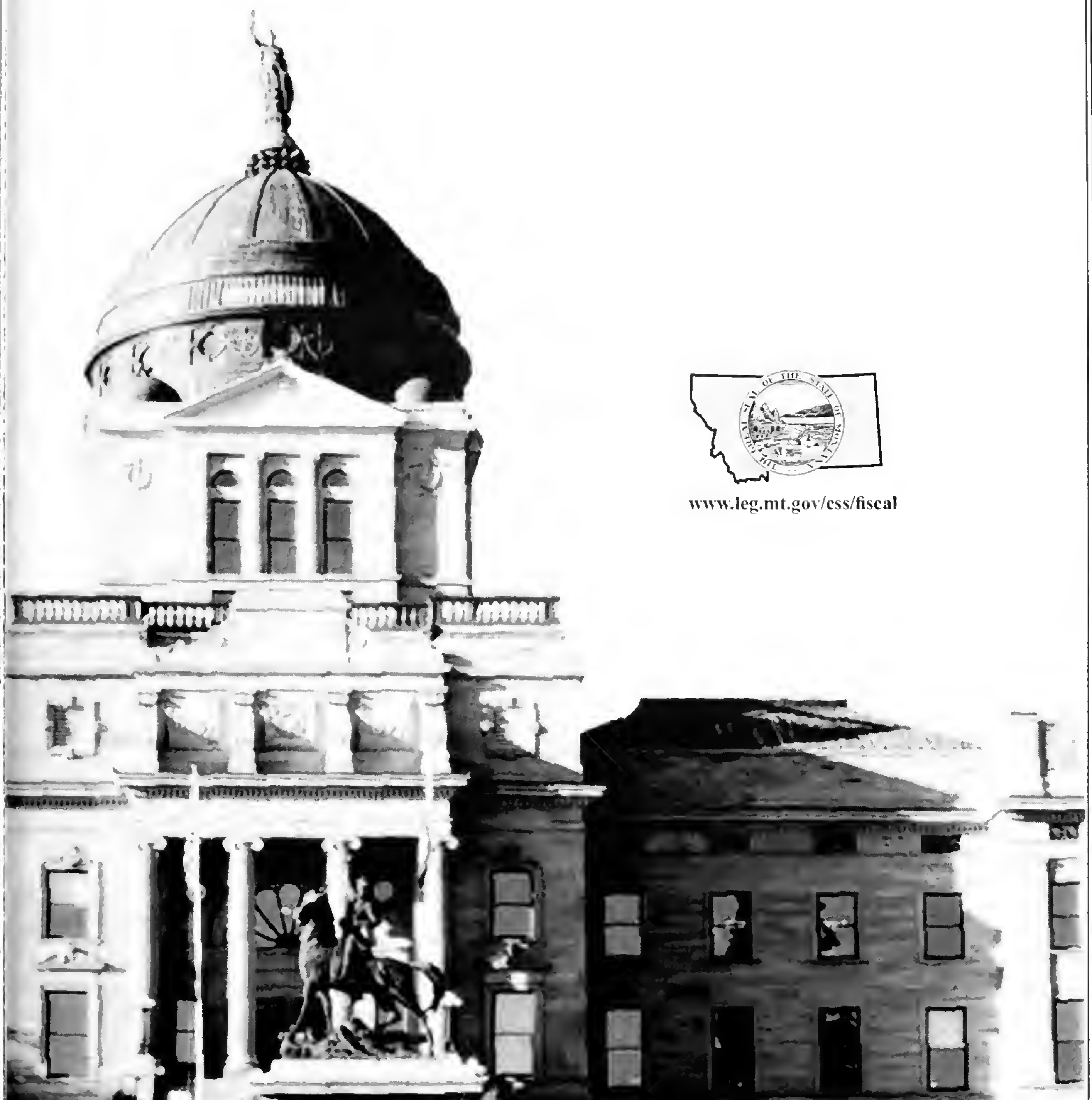
The price for each quarter is estimated by adjusting the IHS national well head price for that quarter by the ratio of the previous three-year average Montana price to the three-year average of the IHS price.

All Remaining General Fund Revenue

The remaining general fund revenue sources in the 2013 biennium constitute 24.5% of the total. For detailed information on all the remaining general fund and selected state special revenue sources, see the LFD *Legislative Budget Analysis 2013 Biennium, Volume 2 – Revenue Estimates.*

State Expenditures Perspectives
Overview of State Expenditures

www.leg.mt.gov/css/fiscal



State Expenditures Perspectives

PART ONE – AN OVERVIEW OF STATE EXPENDITURES

This chapter provides a high level categorization of total proposed spending in the 2013 biennium. The total budget is comprised of four appropriation categories: 1) the general operations of state government (predominantly requested in the general appropriations act (HB 2); 2) capital projects; 3) statutory appropriations and transfers; and 4) miscellaneous appropriations. This chapter includes the following:

- The big picture – proposed spending by fund source/function
- A further examination by appropriation category
- Proposed budget for the general operations of state government (HB2)
- Long Range Planning projects
- Statutory appropriations and transfers
- Miscellaneous expenditures (cat and dog bills)
- A historical perspective on general fund spending

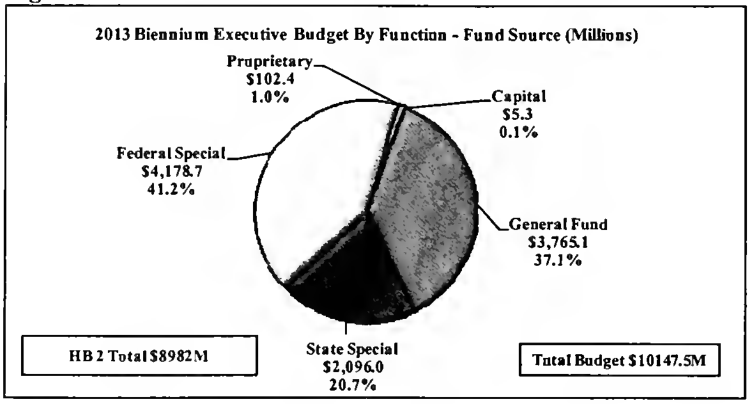
The following chapter, Part Two of state expenditure perspectives, will discuss the specifics of major expenditure proposals in the executive budget.

THE BIG PICTURE – PROPOSED SPENDING ALLOCATION BY FUND SOURCE/FUNCTION

EXECUTIVE PROPOSED SPENDING BY FUNDING SOURCE

Figure 1 shows the executive proposal allocated by funding source. Federal funds comprise the largest share. Because federal funds grow at a higher rate than general fund in the proposed budget, its share of the total has grown slightly from the 2011 biennium.

Figure 1



EXECUTIVE PROPOSED SPENDING BY FUNCTION

Figures 2 and 3 show the executive budget by function for the general operations of state government and by appropriation type for the remaining budget items. Figure 2 shows the total executive budget from all fund sources. As shown in Figure 2, K-12 (public) education, human services, and "other agencies" (primarily due to transportation and various environmental and wildlife expenditures), consume the largest share of the total funds budget at 79%. Statutory appropriations and transfers are 11% of total expenditures.

Figure 2

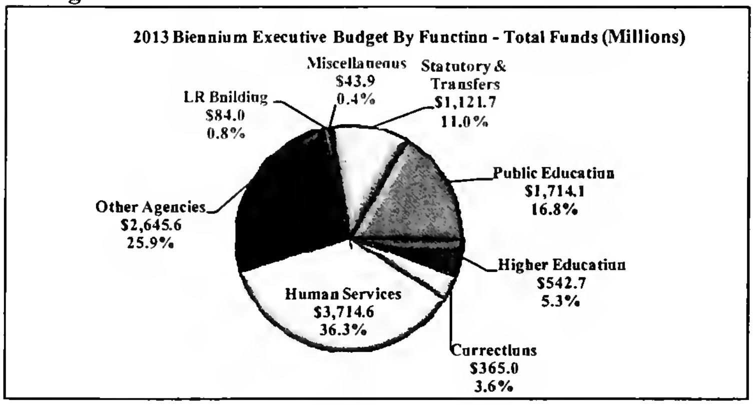
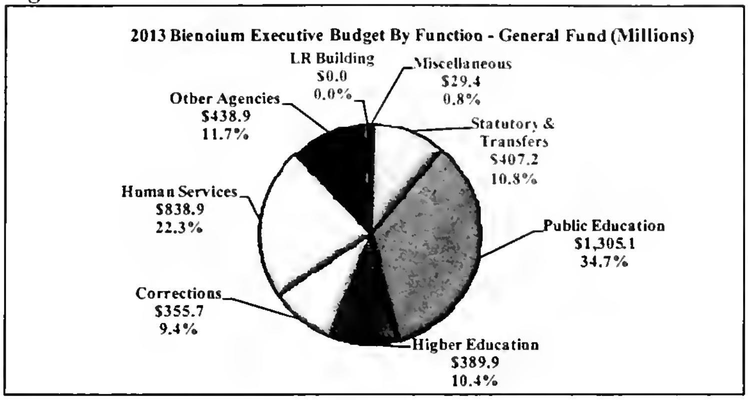


Figure 3 shows the general fund budget proposed by the executive. As shown, the primary activities of state government – education, human services, and corrections – are almost 77% of all general fund expenditures. Statutory appropriations and transfers are almost 11% of general fund expenditures.

Figure 3



A FURTHER EXAMINATION – THE EXECUTIVE BUDGET PROPOSAL BY APPROPRIATION CATEGORY

This section proves further detail on the executive budget proposal, broken down by each of the functional and appropriation source categories shown in Figures 2 and 3. Almost 88% of the total executive budget is contained in HB 2, the general appropriations act, which includes the general operating budget of state agencies. These proposals are summarized by programmatic function shown in Figures 2 and 3 (public and higher education, corrections, human services, and other) beginning on page 78. Long-range planning is summarized on page 58 and in Section F of Volume 7. Statutory appropriations are discussed further beginning on page 62. "Miscellaneous Expenditures", which includes the pay plan bill and all bills other than HB 2, are listed beginning on page B-26.

PROPOSED BUDGET IN HB 2 – GENERAL OPERATIONS OF STATE GOVERNMENT

HB 2 contains almost 88% of the total budget proposals in the executive budget. Figure 4 shows the allocation of total or all funds for ongoing and one-time-only expenditures in HB 2, by function, with education and human services accounting for about two-thirds of the total. Just over half of the expenditures in "Other Agencies" are for the Department of Transportation.

Figure 4

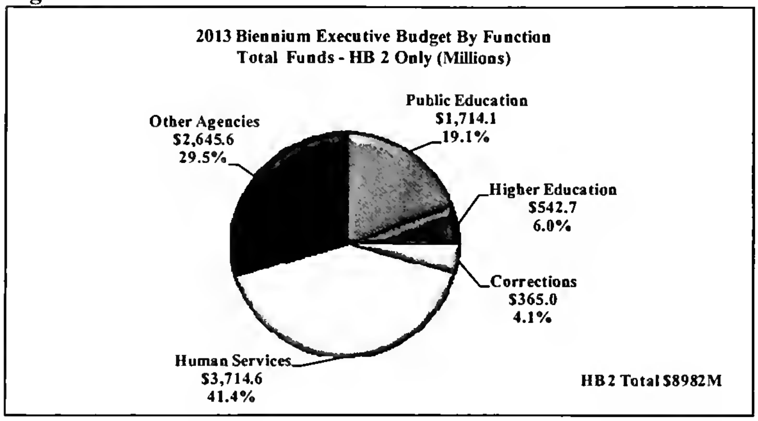
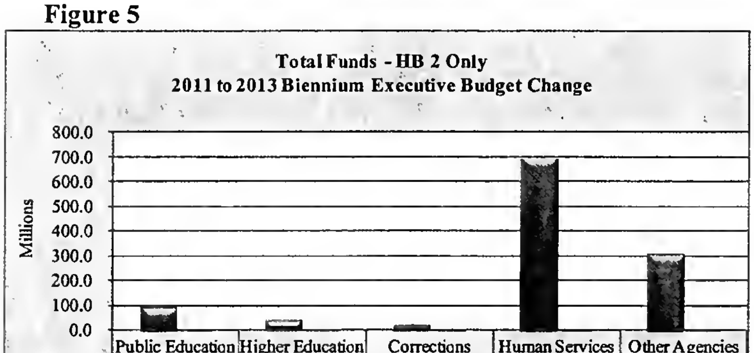


Figure 5 shows the increase from the 2011 biennium to the 2013 biennium proposed executive budget for ongoing expenditures of all funds, by function. As shown, increases are dominated by human services and "Other Agencies", which is comprised of all state government except education, human services, and corrections. The major increase in those agencies is in transportation funding due to projected increased federal grant levels and a requested increase in the 100% state funded program. Human services increase due primarily to caseload and utilization increases, including in Medicaid, Healthy Montana Kids, and SNAP (food stamps).

Figure 5



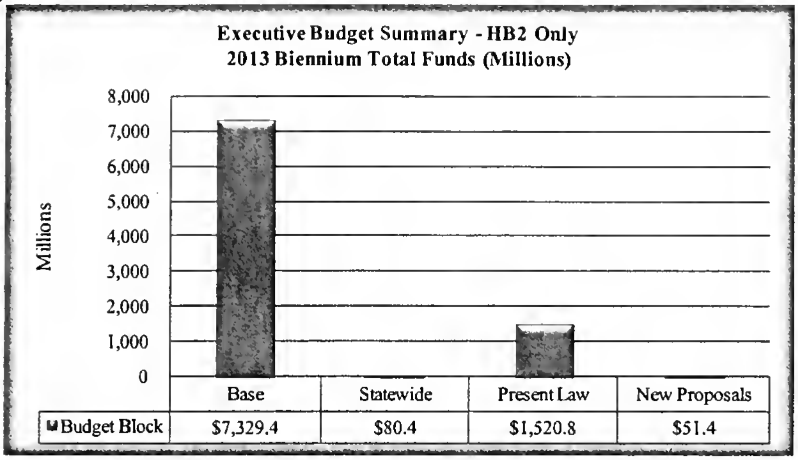
	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$96.1	$37.6	$21.0	$696.7	$309.6
% Change	5.94%	7.44%	6.10%	23.09%	13.25%

Present Law vs. New Proposals

Figure 6 shows the allocation between present law increases and new proposals for all funds in HB 2. Please note that these increases are from the doubled FY 2010 base, rather than from the 2011 biennium.

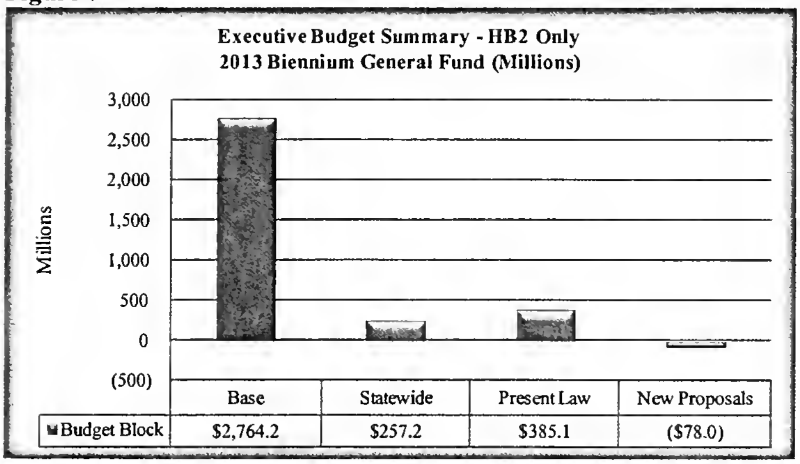
Over 81% of proposed expenditures are for the base, with almost 97% of the net increase in statewide and other present law adjustments.

Figure 6



The split is even more striking with general fund, where base expenditures are over 83% of the total executive budget. Present law as a percentage is over 100% of the change, as general fund for new proposals is actually a negative $78.0 million.

Figure 7



Significant present law increases include:

- K-12 inflation and maintenance of FY 2011 entitlements
- Medicaid caseload and utilization increases
- Corrections population increases and facility conversion and expansion to house the additional secure care and community populations
- Statewide present law adjustments

For additional detail, see page B-1 in Appendix B.

Reductions in general fund new proposals include:

- An ongoing reduction in general fund personal services for most agencies of 4%
- Continuance of FY 2011 reductions made by the Governor under 17-7-140, MCA
- Funding switches for the Quality Educator and school facility programs in the Office of Public Instruction (OPI)
- Developmental disabilities refinancing in the Department of Public Health and Human Services

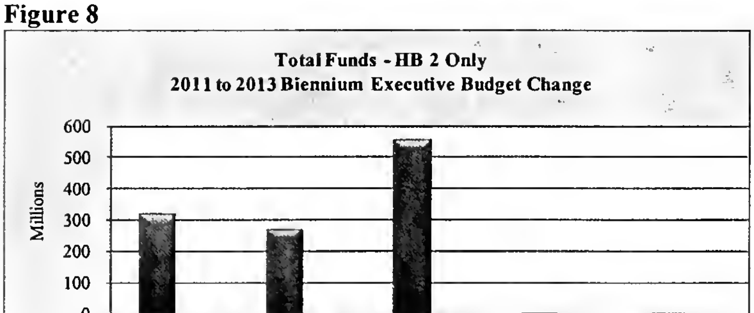
Among the limited positive new proposals are the following:
- Funding of most economic development programs supported in the 2011 biennium by one-time-only appropriations in the Department of Commerce
- Increased funding in the Montana University System, including the community colleges
- Special education and the digital academy in OPI

For additional detail, see page B-3 in Appendix B.

TYPE OF FUNDING

Expenditure proposals are also shown by type of funding. The largest source of funding for state government is federal funds, which has the largest growth at $557.3 million or 15.8% from the 2011 biennium level.

Figure 8



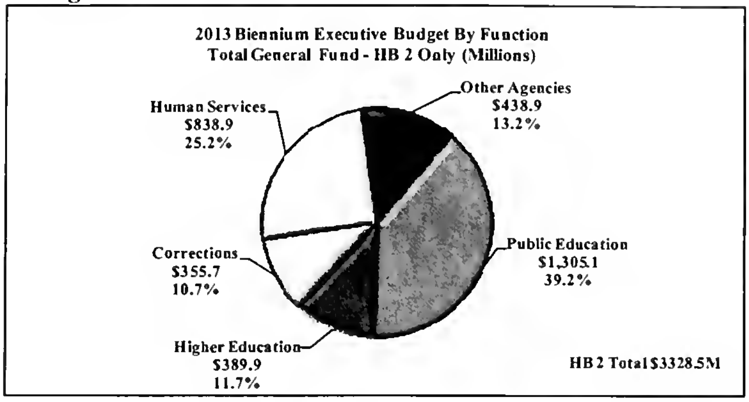
	General Fund	State Special	Federal Special	Proprietary	Capital
Change	$322.1	$274.4	$557.8	$2.2	$4.5
% Change	10.71%	21.88%	15.79%	8.15%	0.00%

Executive Proposed General Fund Spending

Background

General fund comprises $3,328.5 million or 37.1% of total proposed HB 2 funding ($3,337.7 million or 37.2% ongoing general fund), and is used for a wide variety of programs, although education, human services, and corrections dominate expenditures, as shown in the following figure.

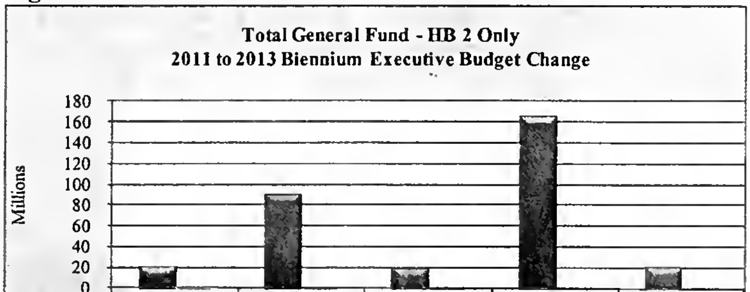
Figure 9



Proposed Spending

General fund would increase by $322.1 million or 10.7% from the 2011 to the 2013 biennium ($331.2 million or 11.0% ongoing general fund).

Figure 10



	Public Ed.	Higher Ed.	Corrections	Hum. Services	All Other
Change	$22.1	$91.7	$20.7	$166.3	$21.2
% Change	1.72%	30.75%	6.18%	24.72%	5.08%

Changes in general fund are due to both increases and decreases from the 2011 biennium. Significant increases and other policy proposals of the executive include:

- Replacement of certain federal American Recovery and Reinvestment Act (ARRA) funds in human services, K-12 education, and higher education
- Higher Medicaid matching rate
- Medicaid caseload and utilization increases
- K-12 inflation, restoration of at-risk payments, and maintenance of FY 2011 entitlements
- Replacement of one-time FY 2010 Otter Creek coal lease payments in K-12 education
- Correctional population increases and conversion and construction of additional secure care and community facilities
- Continuance of certain economic development programs in the Department of Commerce

- Statewide present law adjustments for fully funding personal services (offset by a vacancy savings rate), fixed costs, and inflation. This adjustment is the largest general fund adjustment for 15 of the agencies that receive general fund
-

Among the significant reductions in general fund are the following:

- Replacement of general fund with state special revenue for quality educator and school facility expenditures for K-12 education
- A 4% reduction in ongoing personal services costs funded with general fund in most agencies with general fund positions
- Continuance of certain reductions made by the Governor in FY 2011 under the provisions of 17-7-140, MCA

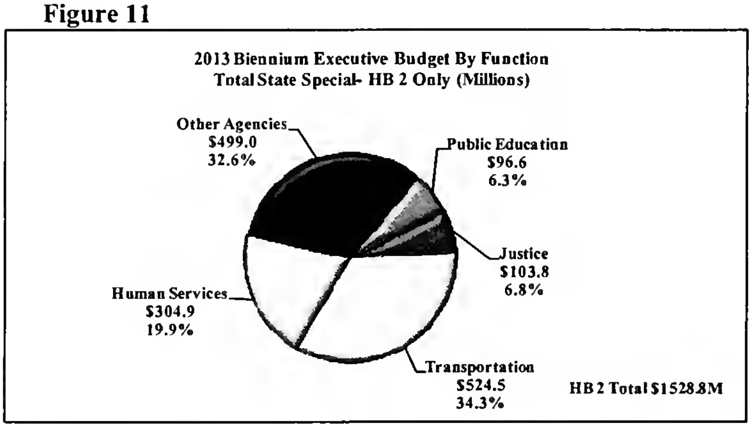
For additional detail, see page B-16 in appendix B.

Executive Proposed State Special Revenue Spending

Background

State special revenue is earmarked for specific purposes and comprises $1,528.8 million or 17.0% of total expenditures in the 2013 biennium ($1,504.3 million or 16.8% ongoing expenditures). The following shows funds by function. "Other Agencies" include transportation, environmental, and wildlife functions, each of which is significantly funded with state special revenue.

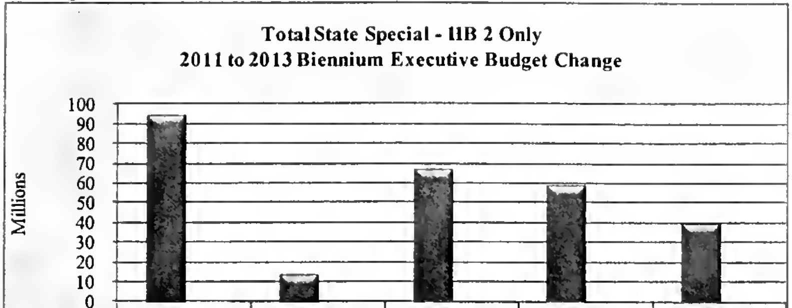
Figure 11



Proposed Spending

State special revenue funds would increase by $274.4 million or 21.9% ($249.9 million or 19.9% for ongoing expenditures) from the 2011 to the 2013 biennium.

Figure 12



	Public Ed.	Justice	Trans.	Human	All Other
Change	$94.6	$14.0	$66.9	$59.2	$39.7
% Change	4730.00%	15.59%	14.62%	24.09%	8.64%

Significant increases and other policy proposals of the executive include:

- A four-fold increase in the 100% state funded highway construction program
- Replacement of general fund on a one-time basis with Medicaid hold harmless funds
- Healthy Montana Kids caseload and hospital utilization fee authority
- Replacement of general fund for quality educator and school facility expenditures in K-12 education
- Statewide present law adjustments

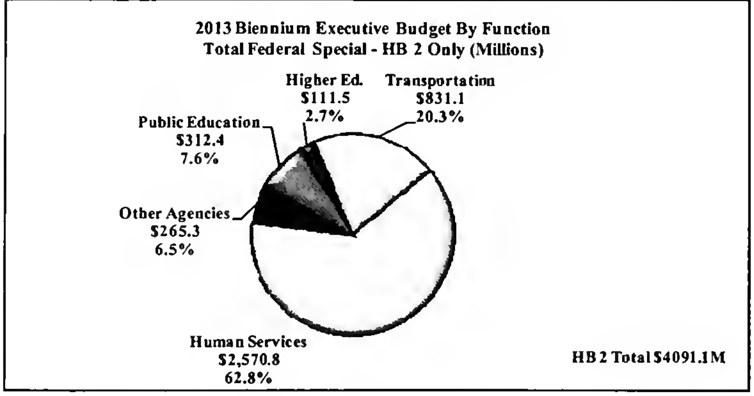
For additional detail, see page B-19 in appendix B.

Executive Proposed Federal Funds Spending

Background

Federal funds are, as the name implies, received from various federal funding sources. The federal government provides targeted funding that cannot be used except for the general and/or specific purposes intended. The proposed executive budget has a total of $4,091.1 million or 45.5% of total expenditures in the 2013 biennium ($4,090.6 million for ongoing expenses, or 45.6% of the ongoing HB 2 total). Two agencies, Health and Human Services (DPHHS) and Transportation, account for over 83% of the total funding.

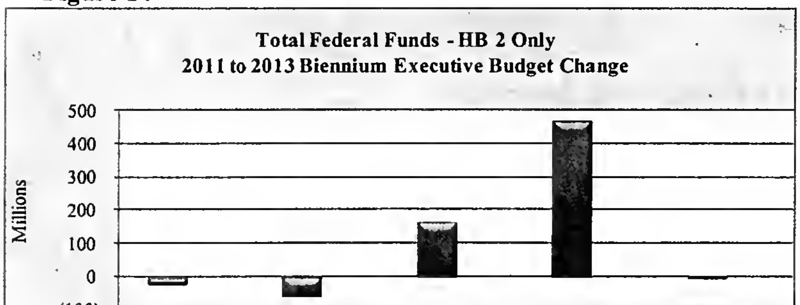
Figure 13



Proposed Spending

Federal funds for ongoing expenditures would increase by $557.9 million or 15.8% between the 2011 and the 2013 biennia ($557.3 million or 15.8% for ongoing expenditures). DPHHS would receive over 84% of this increase, primarily for maintenance of current programs, partially offset by a reduction due to the end of the enhanced FMAP as part of the federal stimulus and an increase in the state's share of Medicaid costs. Transportation is another 30% of the increase, giving those two agencies over 114% of the total increase in federal funds.

Figure 14



	Public Ed.	Higher Ed.	Trans.	Human	All Other
Change	($20.7)	($57.5)	$167.1	$471.2	($2.2)
% Change	-6.21%	-34.02%	25.17%	22.44%	-0.82%

Significant increases and other policy proposals of the executive include:

- Human services caseload and utilization increases, including Medicaid and SNAP (food stamps), partially offset by a higher state Medicaid match
- Increased federal transportation funding

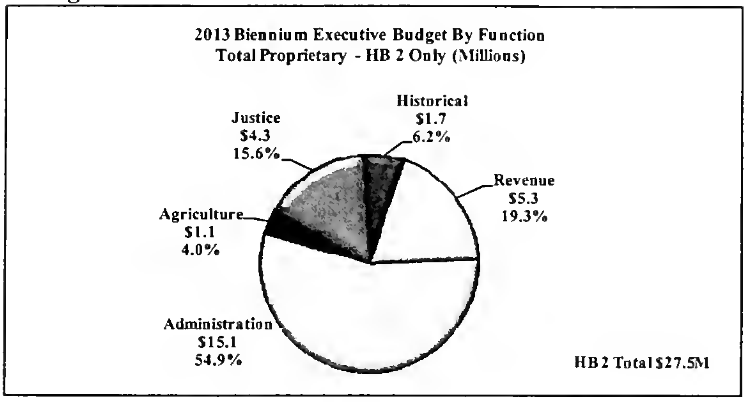
These increases are partially offset by replacement of one-time federal enhanced Medicaid match funding and other federal stimulus funds in DPHHS, OPI, and higher education.

For additional detail, see page B-21 in appendix B.

Executive Proposed Proprietary Funds Spending

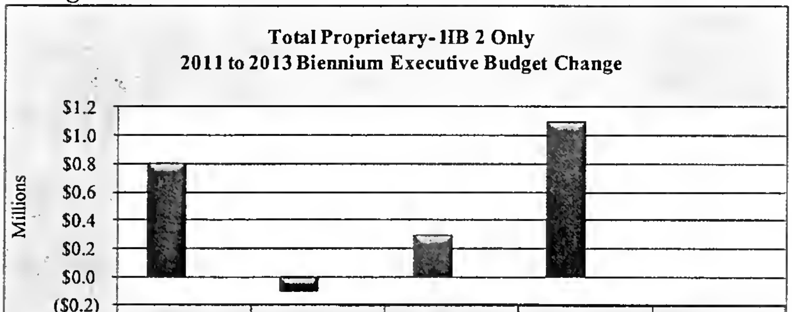
Most expenditure of proprietary funds is made in the Departments of Administration, Revenue, and Justice.

Figure 15



Proprietary funds would be increased by $2.1 million, or 8.3% from the 2011 to the 2013 biennium, primarily because of increases in the Department of Administration.

Figure 16



	Justice	Historical	Revenue	Admin.	Agriculture
Change	$0.8	($0.1)	$0.3	$1.1	$0.0
% Change	22.86%	-5.56%	6.00%	7.86%	0.00%

Please note that these totals are only the portion of proprietary funds appropriated in HB 2, which is only a small fraction of the total. The remaining proprietary funds do not require an appropriation in HB 2. Rather, the legislature establishes the maximum rates the proprietary-funded programs may charge those who utilize the services. If only non-budgeted proprietary funds are included, the increase would total $136.6 million or 8.5%. Major changes (with the exception of the State Fund, which is a quasi-independent entity) proposed by the executive include various programs in the Department of Administration and health and workers' compensation insurance in the Montana University System.

Volumes 3 through 7 of the LFD 2013 Biennium Budget Analysis contain discussion of all non-budgeted proprietary funds in the relevant agencies.

EXECUTIVE PROPOSED LONG-RANGE PLANNING SPENDING

BACKGROUND

The Long-Range Planning Subcommittee (LRP) analyzes and makes appropriations and grant authorizations for the executive proposal of capital projects. The capital project budgets include investment in various forms of infrastructure including: the acquisition of lands, construction and major maintenance of lands and buildings, maintenance and development of water related infrastructure, reclamation activities, and information technology.

GOVERNOR'S PROPOSAL

The executive budget proposes total funds spending of $104.1 million for the LRP budgets. In the 2013 biennium, the legislature will be considering proposals for nine LRP programs, of which four are not funded in the executive budget. The LRP programs include:

- Long-Range Building Program (LRBP) – acquisition, construction, and major maintenance of state-owned lands and buildings
- State Building Energy Conservation Program – energy efficiency improvements to state-owned buildings
- Long-Range Information Technology Program – major information technology build out and upgrade
- Treasure State Endowment Program (TSEP) – water infrastructure grants to local governments
- Treasure State Endowment Regional Water Program – matching funds for major regional water projects
- Renewable Resource Grant and Loan Program – water conservation grants and loans to local governments
- Reclamation and Development Grant Program – grants for the reclamation of lands degraded by severance activities
- Cultural and Aesthetic Grant Program – arts and historical grants
- Quality School Facility Program – a newly proposed grant program authorizing grants for major maintenance of K-12 school facilities

The figure below provides a summary of the proposed appropriations for the LRP programs included in the executive budget. The appropriations shown have been adjusted to agree with the executive budget revisions of December 15, 2010.

Figure 17

Long-Range Planning Budgets 2011 Biennium

(Dollars in Millions)

Program	Capital Project	State Special	Federal Special	Appropriations Proprietary	Authority Only	Bonds / Loans	Total
Long-Range Building Program	$2.42	28.59	16.89	0.25	14.34	0.00	62.48
State Building Energy Conservation Program[1]							0.00
Consolidated IT Long-Range Building Program[1]							0.00
Treasure State Endowment Program - Grants[2]		1.00					1.00
Treasure State Endowment Regional Water Projects[1]							0.00
Renewable Resource Grants		7.21					7.21
Renewable Resource Loans						13.72	13.72
Reclamation & Development Grants		6.85					6.85
Cultural & Aesthetic Grant Program		0.72					0.72
Quality School Facility Program		12.07					12.07
Total Long-Range Planning Recommendations	$2.42	56.45	16.89	0.25	14.34	13.72	104.06

[1] Programs with no project appropriations recommended in the executive budget proposal for the 2013 biennium

[2] TSEP has no appropriation for local government grants in the executive budget proposal for the 2013 biennium, but does have appropriations for planning and emergency grants

The LRP budgets include total funds appropriations of $104.1 million for the 2013 biennium. This is 75.8% less than the total funds appropriations of the 2011 biennium. A small portion of the decrease is due to the 2011 biennium general funds that were "freed-up" through the addition of federal stimulus funds for programs that were typically supported by general fund. In 2009, the legislature made a policy decision that it would be prudent to expend these "one-time only" freed-up dollars for projects of a one-time only nature. In the 2013 biennium, when funds are tight, the executive budget does not recommend general fund support of the LRP programs. Additionally, $22.0 million of the federal funds appropriated in the 2011 biennium can be directly traced to funding from the American Recovery and Reinvestment Act of 2009 (ARRA) as appropriations to the State Building Energy Conservation Program (SBECP). After adjusting for these two inputs to the 2011 biennium budget, the change to LRP budgets represents a reduction of $229.5 million, or 68.8%, of the LRP budget traditional funds.

As mentioned above, the executive budget will not support any of the LRP programs with general fund transfers in the 2013 biennium and most of the programs will have a smaller budget than in the 2011 biennium. Additionally, many of the programs are recommended for significant reductions, and in some cases (four programs) the dedicated program funds are recommended to be transferred to the general fund. In short, the executive theme for LRP budgets in the 2013 biennium is significant reduction. The figure below shows the various proposals for "enhancement of the general fund" through the LRP budgetary funds. The general fund will benefit by $70.5 million if the legislature agrees with all the executive proposals.

Figure 18

General Fund Enhansements from LRP Programs			
Program	Description	Action	General Fund Impact
LRBP	Project reduction / elimination	Transfer of Funds	$10,685,622
LRBP	Program funds reduction	Transfer of Funds	1,000,000
LRITP	Project reduction / elimination	Transfer of Funds	10,737,033
TSEP	Program funds reduction	Transfer of Funds	17,614,270
TSEPRW	Program funds reduction	Transfer of Funds	4,823,825
QSFP	Temporary funding reduction	Statutory change	8,470,261
QSFP	Debt-service funding switch	Legislative change	17,172,000
	Total Proposed Enhancements from LRP Programs		$70,503,011

Issues for Legislative Consideration

The issues related to the LRP budget focus mainly on the lack of information provided in the executive budget (along with the changes in appropriations anticipated in the December 15, 2010, executive budget revisions) and the reductions of program funding. The executive proposal will require significant amounts of legislative time and energy if any changes are desired. Additionally, because the LRP dollars often go out to the state in the form of various types of construction projects, the reductions may impact the state economy.

Undeveloped Budget Proposals

By statute (Title 17, Chapter 7), the executive is required to submit a budget proposal to the Legislative Fiscal Analyst on November 15 (of the year prior to the start of the legislative session). According to 17-7-123, the proposal should include "...balanced financial plan for funds subject to appropriation". The executive recommendation of November 15, 2010, for several of the LRP budgets did not include information on the appropriations or a full picture of the transfers that would be recommended. Consequently, to determine the level of appropriation and the status of the state special revenue fund, the Legislative Fiscal Division (LFD) was required to extract information from the related bill drafts. In such cases, staff is faced with the challenge of preparing a budget analysis that is pegged either to the printed executive budget or the draft legislation, and trying to determine which is intended to be the executive budget proposal.

The executive budget revision of December 15, 2010, contained a number of changes related to the transfers of funds from the LRP budgets. Among the changes were a reduction of the transfer of TSEP funds to the general fund (expected to be changed from $18.5 million to $17.6 million) and a new transfer of LRBP funds ($1.0 million from the LRBP capital projects fund). The LFD was not informed of the changes, but learned of them when the program bills were introduced to the public. The information was then confirmed in the executive budget revision.

The legislature may want to consider statutory revisions that will enhance the submittal of budgetary details by the executive. One option is to clarify the level of detail required to be submitted with the executive budget. Another possible solution would be to accelerate the budget submittal dates so legislative staff would have adequate time to request additional budget details if the information submitted is inadequate. When major revisions to the executive budget are submitted on December 15, it can be difficult for staff to ferret out details and have a complete analysis done prior to the convening of the legislature.

Reduction of Funding

The executive budget proposes significant reductions to the various LRP programs and in some cases the transfer of funds from the statutory dedicated use to support (or enhance) the general fund. The legislature will be required to analyze the full spectrum of budget policies to make changes to the executive budget proposal. For example, if the legislature should choose to fund the TSEP local government grants, they will need to be prepared to find other sources of revenue (other program reductions or tax increases) to replace the funds that are proposed to be transferred to the general fund. Requiring these actions bears significant policy implications and will require a great deal of legislative time and effort.

Reduction of LRP Budgets May Negatively Impact the Montana Economy

LRP projects help to bring money and jobs to the Montana economy. Most of the programs support the construction industry by pushing building dollars out into the state. With actual reductions of $71 million in LRP programs, the impact to the economy could be significant. Often the LRP budgets directly leverage federal and local funds for projects, expanding the full economic impact of the projects. As such, the policy decision of not funding or reducing funding to these projects may have a significant impact on the state economy.

All state spending impacts the economy, but with consideration of the potential for matching dollars for LRP projects, the economic impact could be greater than, for example, reducing other state services. In an economy where unemployment is unusually high and spending is inhibited, the legislature will need to seriously consider the executive proposals for LRP reductions.

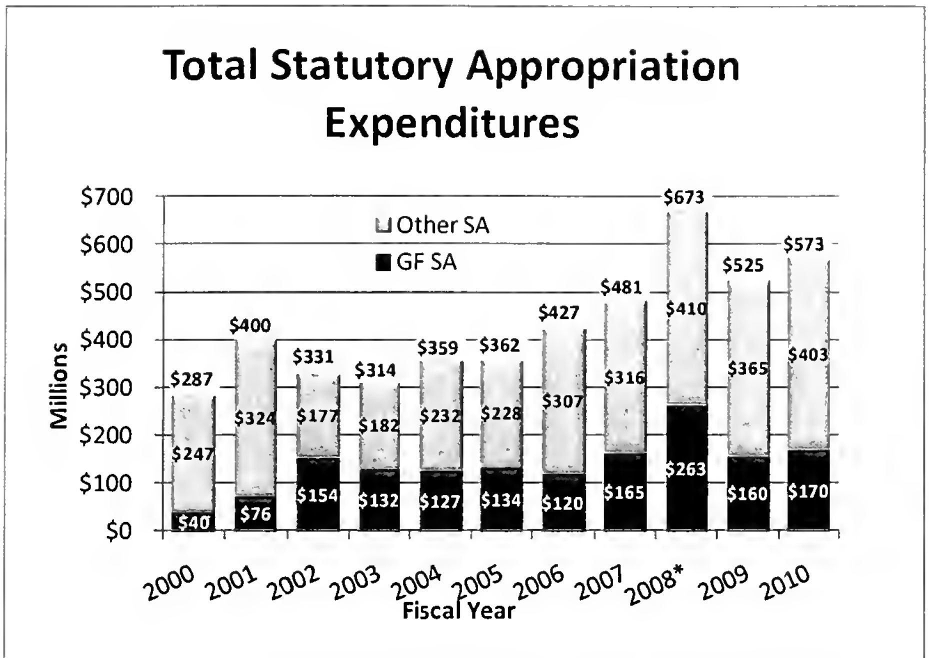
STATUTORY APPROPRIATIONS

GENERAL FUND

Statutory appropriations are a special kind of legislative appropriation. Unlike temporary appropriations that expire in two years (such as those in the general appropriations act), statutory appropriations are, as their name suggests, in statute and are not part of the biennial budgeting process. As such, they are not automatically reviewed by the legislature and are not subject to the priority setting process like temporary appropriations (such as those in HB 2). Since the appropriations are in statute, they remain in place until removed or changed by legislation. The legislature has made various attempts to not lose sight of these appropriations. In 1985, Representative Bardanouve sponsored legislation that required all valid statutory appropriations to be contained in a list in 17-7-502, MCA. That list provides statutory citations for each statutory appropriation. Although there are currently 93 sections listed containing 96 separate statutory appropriations, each appropriation listed in statute could have multiple appropriations established on the state accounting system. Of the 96, 29 statutorily appropriate general fund. In 1993, Senator Grosfield successfully sponsored legislation (SB 378) that required a review of all statutory appropriations every two years by the Legislative Finance Committee (this requirement was removed by the 2001 legislature). Following some tough budget sessions ($156.1 million of general fund budget balancers were enacted in the three special sessions in 1992 and 1993), Senator Grosfield and other legislators were frustrated with the difficulty in reducing statutory appropriations. They were also concerned with the unfairness this caused when HB2 appropriations had to absorb a larger portion of the reductions.

Statutory appropriations are intended for only limited situations, and guidelines for the appropriateness for establishing them are specified in 17-1-508, MCA. In FY 2010, a total of $572.7.0 million was spent with statutory appropriations (Figure 19). The general fund expenditures were $169.8 million. Total expenditures since FY 2000 were $4.7 billion, of which $1.5 billion was general fund. In the executive budget, there are approximately 80 FTE funded with statutory appropriations with 57 FTE in the Department of Commerce and 16 FTE in the Department of Fish Wildlife and Parks at the cost of $4.1 million each year.

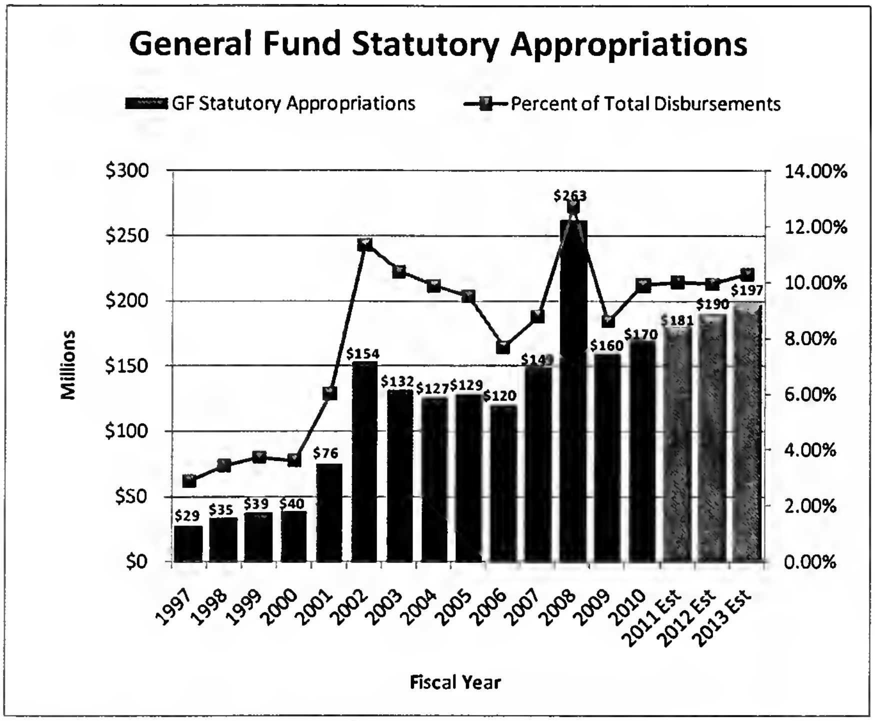
Figure 19



*Excludes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

The significance of statutory appropriations lies not in the number of them, but rather in the amount of money authorized to be spent and whether the authorizations still reflect the priorities of the current legislature. All statutory appropriations are available for the legislature to review, prioritize, and change if desired. Figure 19 illustrates the amount of general fund spent through statutory appropriations from FY 1997 through FY 2010 and estimated amounts for FY 2011 to FY 2013. From FY 1997 to FY 2010, general fund expenditures from statutory appropriations increased $141.1 million and, in FY 2010, comprised 9.9% of all general fund expenditures. The increase in FY 2001 is largely due to payment of wildfire costs incurred during the summer of 2000. The initiation of the local government entitlement program in FY 2002 (enacted by HB 124 in the 2001 session) accounts for most of the large increase shown in FY 2002. FY 2008 was an unusual year in that $94.6 million was spent to provide one-time tax rebates (HB 9 in the 2007 May special session). For the 2013 biennium, $386.8 million general fund is expected to be spent with statutory appropriations, an increase of $36.2 million over the estimated $350.6 million to be spent in the 2011 biennium.

Figure 20



*Excludes $1.6 M spent by MUS for optional retirement (HB 95) without a statutory appropriation

Figure 20 shows each individual general fund statutory appropriation that has been included in the general fund balance sheet for FY 2011-2013. The largest single statutory appropriation of general fund occurs under 15-1-121, MCA. Under this statute, $212.7 million is expected to be spent for entitlement payments to local governments and tax increment financing districts in the 2013 biennium. Since statute allows annual increases based on averages of Montana's gross state product and personal income, the amount has grown at an average annual rate of 3.4 percent from FY 2003 to FY 2013. Other large statutory appropriations of general fund in the 2013 biennium include:

- $106.7 million of transfers to retirement funds (Title 19, MCA)
- $32.7 million to service the debt on bonding issues approved by past legislatures (17-7-502, MCA)
- $16.5 million for emergencies or disasters declared by the governor or the president of the United States
- $6.1 million of coal trust interest (that is deposited to the general fund) to fund economic development programs (15-35-108, MCA). The statutory appropriations increase to $12.0 million after FY 2013.

Figure 21

General Fund Statutory Appropriation Estimates
Fiscal Years 2011-2013
(Millions)

MCA Cite	Bill/Purpose	Legislative Session	Fiscal 2011	2013 Biennium Fiscal 2012	Fiscal 2013	Total
Retirement						
19-3-319	Local Government PERD 19-3-319	1985	$1.106	$1.239	$1.389	$2.628
19-6-404(2)	HB 102-MVD retirement transfer	2005	1.460	1.641	1.845	$3.486
19-6-410	HB 102-MHP retirement transfer	2005	0.307	0.313	0.319	$0.632
19-9-702	Ins Prem Tax-Fire/Polic Ret 19-9-702-SA	1997	11.660	12.496	13.391	$25.887
19-13-604	Prem Tax-Fire/Pol 19-13-604-SA	1997	11.879	12.915	14.041	$26.956
19-17-301	Prem Tax-Fire/Pol 19-17-301-SA	1985	1.572	1.572	1.572	$3.144
19-18-512(1)	Prem Tax-Fire/Pol 19-18-512-SA	1985	0.369	0.369	0.369	$0.737
19-19-305(1)	Prem Tax-Fire/Pol 19-19-305-SA	1985	0.296	0.296	0.296	$0.593
19-19-506(4)	Prem Tax-Fire/Pol 19-19-506-SA	1985	0.019	0.019	0.019	$0.039
19-20-604	Teachers GABA 19-20-604	1985	0.847	0.890	0.934	$1.824
19-20-607	HB 63 - Teachers' retirement system	2007	17.257	18.120	19.026	$37.146
19-21-203	HB 95 - Increase MUS employers' retirement contributions	2007	1.875	1.794	1.794	$3.589
Sub-total			$48.647	$51.664	$54.996	$106.660
Economic Development						
15-35-108(9)(b)(i)	Coop Developmental Center NMC	2000 SS	$0.065	$0.065	$0.065	$0.130
15-35-108(9)(b)(ii)	Growth Through Agriculture	2000 SS	0.625	0.625	0.625	1.250
15-35-108(9)(b)(iii)	Research & Commercialization	2000 SS	1.275	1.275	1.275	2.550
15-35-108(9)(b)(iv)	Economic Development	2000 SS	1.100	1.100	1.100	2.200
Sub-total			$3.065	$3.065	$3.065	$6.130
Other						
7-4-2502	HB 12 - Pay county attorney salaries	2007	$2.803	$2.852	$2.892	$5.744
10-1-1202	HB 136 - Death benefit to national guard beneficiaries	2007	0.000	0.000	0.000	0.000
10-3-312(1)	Emergency Appropriations	1985	8.250	8.250	8.250	16.500
15-1-121(3)	HB 124 - Combined Local Entitlement Distribution	2001	99.209	103.688	107.550	211.238
15-1-121(6)	HB 124 - Local TIF Entitlement Distribution	2001	0.785	0.773	0.732	1.506
15-1-218	HB 680 - DOR to collect out-of-state debt	2007	0.400	0.400	0.400	0.800
15-70-601(1)(b)	HB 756 - Biodiesel tax incentives	2005	0.004	0.004	0.004	0.007
15-70-369(4)	HB 776 - Biodiesel tax refunds	2005	0.000	0.000	0.000	0.000
16-11-509	HB 169 - Fines & cost recovery tobacco settlement	2005	0.013	0.013	0.013	0.026
17-3-106(2)	DofA Cash Management Interest	1993	0.177	0.166	0.164	0.330
17-6-101(6)	BOI Banking Charges	1993	2.368	2.500	2.653	5.153
17-7-502(4)	TRANS Debt Service and Issuance Costs	1985	0.000	0.000	0.000	0.000
17-7-502(4)	Transfer to Debt Service A/B Bond	1985	14.963	16.242	16.461	32.703
Sub-total			$128.971	$134.888	$139.119	$274.007
Total			$180.683	$189.618	$197.180	$386.798

LFD COMMENT

Executive Budget – HB 49, HB 138, HB 56, and LC ???

The executive proposes three new proposals associated with general fund statutory appropriations.

Additional Debt Service (HB 49) - The executive proposes to issue up to $16.0 million in general obligation bonds to pay the state's costs for water-related infrastructure projects within the Blackfeet Indian reservation. It is estimated that the debt service, paid with a statutory appropriation from the general fund, will be $1.23 million each year for 20 years. Total debt service through the 2013 biennium will be $2.5 million general fund.

LFD COMMENT CONT.

Reduce General Fund for MUS Optional Retirement Plan (HB 138) – Since 30% of salary and benefit costs are funded with non-state money, the executive proposes to use this money to pay the costs rather than the general fund. It is estimated that general fund expenditure reductions from this statutory appropriation will be over $1.0 million in the 2013 biennium.

Lower and Cap the Entitlement Share Growth (HB 56) – Beginning with FY 2012 and all subsequent payments, the executive proposes to permanently cap the growth rate at 0.76% each year. This compares with current law growth rates of 4.5% and 3.7% for FY 2012 and FY 2013, respectively. Over the 2013 biennium, general fund payments to local governments would decrease by $10.6 million.

LFD ISSUE

Unknown – The Executive Budget includes general fund debt service payments for an unknown project. When LFD staff contacted the Office of Budget and Program Planning about additional statutorily appropriated general fund debt service amounts in the Executive Budget, the executive refused to provide the LFD with pertinent, detailed information about the new project.

LFD COMMENT

Legislative Finance Committee Policy

The committee has adopted the following policy: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation establishing a statutory appropriation unless a termination date is included".

LFD ISSUE

Local Government Entitlement Payments

As stated in the Figure 20 discussion, $212.7 million of general fund is projected to be spent in the 2013 biennium through a general fund statutory appropriation for entitlement payments to local governments and tax increment financing districts. By statute, subsequent yearly amounts are automatically increased for the entitlement payments by a calculated growth factor. Since FY 2010, the yearly growth in expenditures has increased each year at an average rate of 4.2 percent or an average of $4.3 million each year. Because the money is appropriated in statute, it is not reviewed by the legislature as part of the biennial budgeting process. In essence, it and all other general fund statutory appropriations have priority funding over all general fund programs appropriated in the general appropriations act (HB 2). When the legislature is prioritizing general fund programs to balance the budget, programs funded with general fund statutory appropriations could be considered by the legislature along with all other general fund programs.

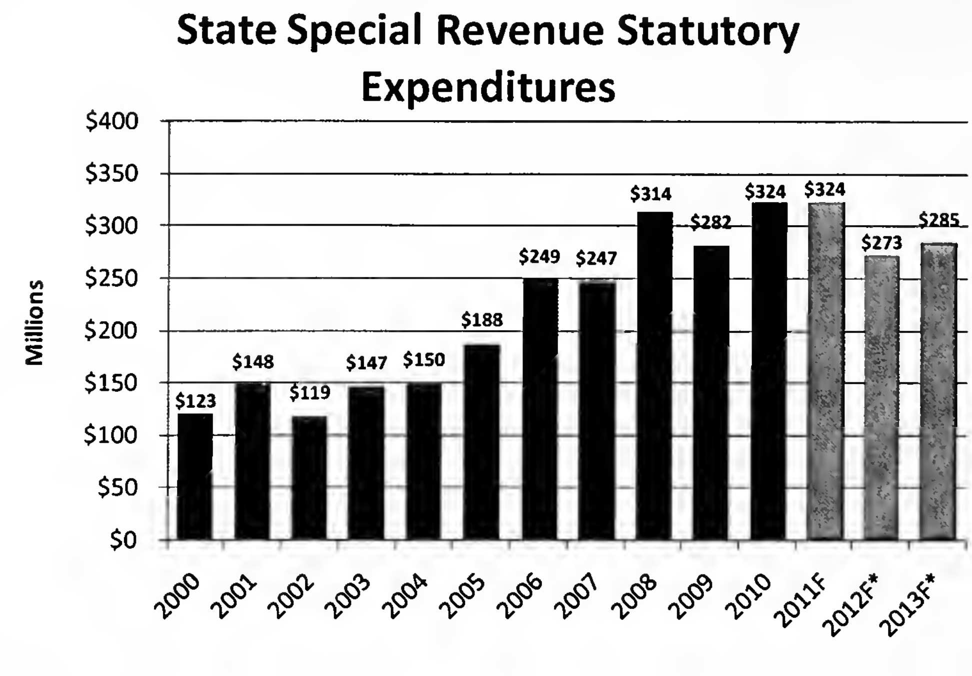
LFD ISSUE CONT.

As an alternative to funding local governments and tax increment financing districts entitlement payments through a statutory appropriation, the legislature could eliminate the general fund statutory appropriation and provide general fund appropriations for the programs in HB 2 at the same level. This was done in the 1995 session (SB 83) for K-12 education. Not only would this ensure that the programs would receive the same amount of funding, but the appropriations would be reviewed and prioritized along with the other general fund programs in HB 2 each biennium and the level of funding would reflect the current legislature's funding priorities.

State Special

It is estimated by the executive that $557.5 million of state special revenue will be spent through statutory appropriations in the 2013 biennium. Figure 22 shows the amounts spent from FY 2000 through FY 2010 and the amounts estimated by the executive to be spent from FY 2011 through FY 2013. In FY 2010, the agency with the largest expenditure of state special revenue ($134.3 million) with statutory appropriations was the Office of Public Instruction which distributes net interest and income from the common school trust to fund public schools. The second largest was $105.0 million spent by the Department of Revenue. This department distributes revenue from oil, natural gas, metalliferous mines, beer, wine, and liquor taxes to local and tribal governments. The five agencies with the largest expenditures spent $305.7 million or 94.3 percent of the $324.1 million total. By far, the largest single purpose for which the money was spent ($275.1 million or 84.9 percent) was to transfer money to local governments.

Figure 22



* From the executive budget

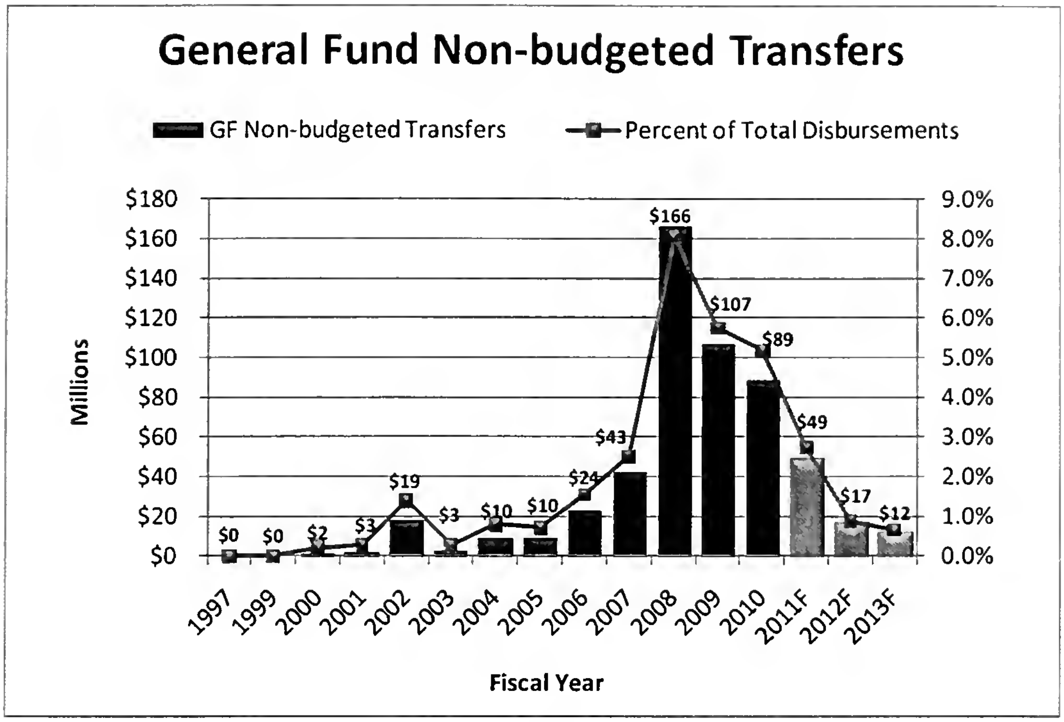
GENERAL FUND NON-BUDGETED TRANSFERS

The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and, with proper legislative authorization, money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. Like statutory appropriations, these transfers and their authorizations are in statute (or sometimes contained in uncodified legislation) and are not part of the biennial budgeting process, yet they affect the amount of money available for the legislature to appropriate for specific programs. Because they are in statute, they remain in place until removed or changed by the legislature.

Since FY 2000, increased amounts of money have been transferred out of the general fund to other accounts that fund non-general fund programs. As illustrated in Figure 23, this amount has grown from $0 in FY 1999 to a high of $166.4 million in FY 2008. Of the $166.4 million, $158.0 million was uncodified one-time transfers for capital projects ($82.6 million), water adjudication ($25 million), noxious weed trust fund ($5.0 million), cultural trust fund ($1.5 million), national guard life insurance ($1.0 million), and children trust fund ($1.0 million) among others. In FY 2009, $107.0 million was transferred

including one-time transfers to other funds of $98.2 million for capital projects, community health center support, free hunting licenses, and national guard life insurance.

Figure 23



Transfers are estimated to be $29.2 million in the 2013 biennium. The largest single transfer in the biennium is $18.1 million to the workers compensation old fund (39-71-235(6), MCA). Beginning FY 2011 at $2.1 million, the Montana State Fund estimates that yearly general fund transfers (in decreasing amounts after FY 2012) totaling $60.8 million will be needed through FY 2049. The table shows the estimated transfer amounts from FY 2011 to FY 2021.

These transfers reduce the amount of money in the general fund that is available for general fund programs and increase the amount available for other non-general fund programs. Figure 24 shows each non-budgeted general fund transfer that has been included in the general fund balance sheet.

Estimated General Fund Transfers to the Old Fund	
Fiscal Year	Amount
2011	$2,055,060
2012	11,157,605
2013	6,909,883
2014	5,959,212
2015	5,180,633
2016	4,223,272
2017	3,339,841
2018	2,568,549
2019	2,010,461
2020	1,544,477
2021	1,157,184

Figure 24

General Fund Non-budgeted Transfer Estimates
Fiscal Years 2011-2013
(Millions)

Authorization	Name	Legislative Session	Fiscal 2011	2013 Biennium Fiscal 2012	Fiscal 2013	Total
Vehicle/Other Fee Transfers						
15-1-122(1)	DPHHS-Adoption services	2001	$0.065	$0.072	$0.079	$0.150
15-1-122(2)(a)	DEQ-Junk vehicles	2001	1.584	1.578	1.584	3.161
15-1-122(2)(b)	Agriculture-Noxious weeds	2001	1.558	1.558	1.558	3.116
15-1-122(2)(c)(i)	FWP-Boat facilities & enforcement, OHV, Parks	2001	0.748	0.748	0.748	1.496
15-1-122(2)(c)(ii)	FWP-Enforcement, snowmobiles	2001	In above	In above	In above	0.000
15-1-122(2)(c)(iii)	FWP-Motorboats	2001	In above	In above	In above	0.000
15-1-122(2)(d)	MA-Veterans' services	2001	0.706	0.706	0.706	1.413
15-1-122(2)(e)	DOT-Disabled seniors transportation	2001	0.312	0.312	0.312	0.623
15-1-122(2)(f)	MA-Search and rescue	2001	In above	In above	In above	0.000
Sub-total			$4.973	$4.973	$4.986	$9.959
Other Transfers						
Unknown	DPHHS Nonbudgeted		$0.248	$0.248	$0.248	$0.496
Unknown	Other Agencies Nonbudgeted		0.022	0.022	0.022	0.043
17-1-511(2)	SB 553 - Incentative for rural physicians	2007	0.170	0.227	0.227	0.455
39-71-2352(6)	Old state fund shortfall	2002 SS	2.055	11.158	6.910	18.067
53-20-171(2)	Developmental disability tax credit excess	2003	0.000	0.000	0.000	0.000
77-1-108(5a)	HB 19 - To trust land administration account	2007	0.000	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.001	0.001	0.001	0.001
87-2-803(12d)	SB 243 - To general license acct. national guard free license	2007	0.033	0.033	0.033	0.067
Sub-total			$2.529	$11.768	$7.441	$19.209
New or Changes to Existing Transfers - 2009 Legislature						
Un-codified	HB 10 - To long-range information technology capital projects	2009	$3.433	$0.000	$0.000	$0.000
Un-codified	HB 645 - To the long-range building captial projects account	2009	6.545	0.000	0.000	0.000
Un-codified	HB 645 - To the long-range building captial projects account	2009	1.793	0.000	0.000	0.000
Un-codified	HB 645 - To state energy conservation repayment account	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To MUS energy conservation improvements	2009	6.150	0.000	0.000	0.000
Un-codified	HB 645 - To U of M Western main hall	2009	3.000	0.000	0.000	0.000
Un-codified	HB 645 - To state energy conservation account	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To Secretary of State information management system	2009	0.750	0.000	0.000	0.000
Un-codified	HB 645 - To TSEP regional water system	2009	4.000	0.000	0.000	0.000
Un-codified	HB 645 - To TSEP for infrastructure	2009	11.500	0.000	0.000	0.000
Un-codified	HB 645 - To the renewable resource grants & loans account	2009	2.074	0.000	0.000	0.000
Un-codified	HB 645 - To the reclamation grants & loans account	2009	0.897	0.000	0.000	0.000
Subtotal			$41.642	$0.000	$0.000	$0.000
Total			$49.144	$16.741	$12.426	$29.168

LFD COMMENT

Legislative Finance Committee Policy

The Legislative Finance Committee has approved the following policy: "It is the policy of the Legislative Finance Committee that the legislature does not enact legislation that transfers general fund in an on-going manner to another account from which it can be appropriated. Such action obfuscates the true source of funding, reduces the general fund balance without any review by the appropriations subcommittees, and is inefficient. A better method is to directly appropriate the funding for the intended use. This policy also applies to non-general fund on-going transfers. Our Legislative Fiscal Division staff is instructed to inform legislators, legislative committees, and others as it deems necessary of this policy."

LFD COMMENT

Executive Budget - HB 121 Montana Trust Land Coal Development Landowner Protection Act

The executive proposes to establish a landowner protection account in the state special revenue fund to be used to compensate private landowners and water right holders for damages to land or water attributable to development of trust land coal tracts and to pay administrative costs. Money from a one-time $5.0 million transfer from the general fund will be deposited in the new account and is statutorily appropriated. The transfer is to occur during the 2013 biennium.

LFD ISSUE

MCA Title 15 General Fund Transfers

The second largest group of on-going transfers out of the general fund ($10.0 million in the 2013 biennium) is the transfer of motor vehicle fee and other revenue that is initially deposited to the general fund (15-1-122, MCA). This money is earmarked and transferred out to multiple accounts to fund various state programs. The practice of transferring money out of the general fund escalated with the enactment of HB 124 (entitlement payments to counties) in the 2001 session. The practice unnecessarily complicates the revenue and disbursement processes.

The legislature could achieve the same results by implementing one of the following changes:

- Earmark the applicable fees and provide for their direct deposit to the various program accounts. This bypasses the unnecessary step of first depositing the money in the general fund and then transferring the general fund to the various program accounts. Since the money is already being appropriated from these program accounts, current appropriations would not change.
- Continue to deposit the applicable fees to the general fund, but eliminate the transfers to the various program accounts. Since there would be no transfer revenue to appropriate from the various program accounts, appropriations from these accounts could be eliminated and replaced by general fund appropriations in the same amounts.

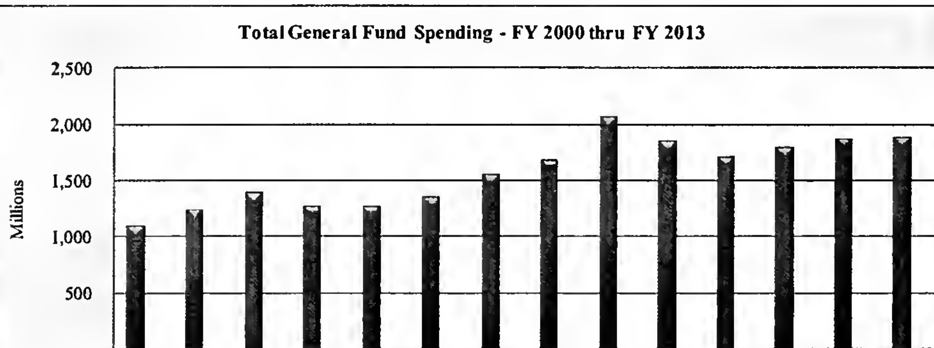
In both cases, the various state programs would receive the same level of appropriation, the general fund transfers are eliminated, and there is no impact on the general fund balance.

A Historical Perspective on General Fund Spending

Total General Fund Spending – A 14-Year History

Figure 25 shows total general fund spending over a fourteen year period, FY 2000 through 2013. The amounts shown for the period FY 2000 through 2010 are actual disbursements, FY 2011 is as budgeted by the 61st Legislature and FY 2012 and 2013 are as proposed in the revised Executive Budget submitted on December 15, 2010. The disbursement data for this historical perspective was obtained from the Statewide Budgeting and Human Resources System (SABHRS) and the Montana Budgeting and Accounting System (MBARS). The economic information was obtained from IHS Global Insight, the regional and national economic forecasting service on contract with Montana state government.

Figure 25



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nominal $'s	1,105.	1,255.	1,402.	1,275.	1,282.	1,353.	1,566.	1,700.	2,069.	1,860.	1,716.	1,803.	1,883.	1,891.
% Change		13.6%	11.7%	-9.0%	0.5%	5.6%	15.7%	8.6%	21.7%	-10.1%	-7.7%	5.0%	4.4%	0.5%

Total general fund spending grows from $1.105 billion to $1.891 billion over the period, FY 2000 through 2013. This is a 71.1% total growth or an annual average growth rate of approximately 4.2% per year. As shown in Figure 25, general fund spending was on the increase from FY 2000 to 2002 reflecting the positive effects of the "dot.com" rage and the resulting run-up in the securities market. Higher equity prices produced record capital gains income, higher corporate profits, and accelerated state tax revenues. During FY 2003 and 2004, Montana's economy as well as the US economy fell into a recession precipitated by the tragic event of "9/11". Starting in FY 2005, state disbursements began an upward growth pattern fueled by unusually high revenue growth until FY 2008. Individual, corporation, and oil and gas taxes all contributed to this phenomenal growth spurt during this period. As shown in Figure 25, the executive budget proposes to adjust general fund spending by 4.4% in FY 2012 and 0.5% in FY 2013.

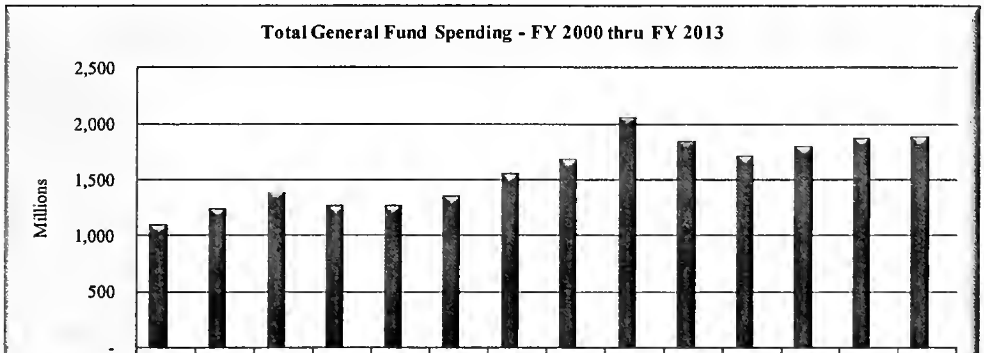
It should be noted that historical spending trends can be misleading if there are statutory changes that have occurred over the comparison period. For instance, the 2001 Legislature passed House Bill 124 ("The Big Bill") that re-directed the flow of local government

vehicle fees and taxes, video gambling revenues, and other taxes to the state general fund. This legislation had no impact on individual taxpayers but state disbursements went up by the corresponding increase in state revenue flow. Without knowledge of this change, the reader could conclude that state disbursements are increasing significantly when in reality some of this growth is due to "accounting" changes. The data presented in this historical perspective has not been adjusted for any legislative or accounting changes.

Per Capita General Fund Spending

Part of the increase in general fund spending can be attributed to a growing population and the services required for a greater population base. For instance, as population grows or the demographics of the populace change, the services provided by government may increase in one area and wane in another. If school age children decline, for example, but the population as a whole ages, reduced costs may be incurred for education but human service costs for the aged may increase. Regardless, population growth and the underlying demographics play a critical role in state general fund spending. Figure 26 shows per capita general fund spending over the fourteen year period, FY 2000 through 2013. Per capita general fund spending has increased by 53.9% or an average annual rate of 3.37% per year.

Figure 26

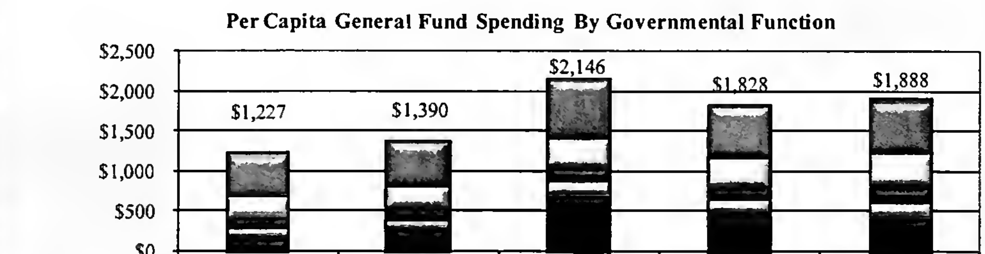


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nominal $'s	1,105.	1,255.	1,402.	1,275.	1,282.	1,353.	1,566.	1,700.	2,069.	1,860.	1,716.	1,803.	1,883.	1,891.
% Change		13.6%	11.7%	-9.0%	0.5%	5.6%	15.7%	8.6%	21.7%	-10.1%	-7.7%	5.0%	4.4%	0.5%

As shown in Figure 26, per capita spending has followed a similar pattern as discussed previously. Per capita spending peaked in FY 2008 and 2009 when the legislature authorized an unprecedented amount of "one-time-only" spending for state infrastructure, information technology, retirement system cash infusions, and tax rebates. The executive budget proposes to reduce per capita spending but not near to the level observed prior to FY 2008 and 2009. Figure 27 shows the same per capita spending data except that the information is summarized by major functional service areas of state government. Figure 27 provides an indication of the spending priorities of the proposed executive budget. For FY 2013, the executive budget proposes to increase per capita spending for public schools and higher education. Additionally, the Governor's spending priorities also increase funds for public health and correction, while reducing all remaining state services. Considering

the budget proposed by the Governor, with total per capita spending of $1,888 in FY 2013, this represents a $498 increase from per capita spending of $1,390 in FY 2004.

Figure 27

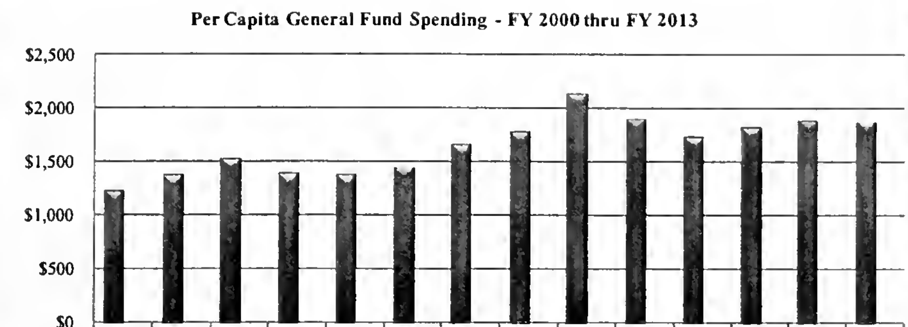


	2000	2004	2008	2011	2013
Public Schools	$535.27	$557.36	$711.16	$632.57	$653.52
Public Health	$259.22	$273.10	$370.18	$379.74	$415.41
Higher Education	$138.76	$152.93	$184.42	$157.80	$195.72
Corrections	$100.77	$113.61	$163.34	$174.34	$180.00
Remaining	$192.66	$292.90	$717.28	$483.29	$443.18
Total	$1,227	$1,390	$2,146	$1,828	$1,888

Inflation-Adjusted Per Capita General Fund Spending

Part of the general fund spending growth discussed above is related to the effects of rising prices (inflation) and a growing population over time. Figure 28 shows total general fund spending after adjusting for both of these factors. The data shown in the figure are per capita general fund spending adjusted for the effects of inflation. To put the data in perspective, real spending (inflation adjusted before a population adjustment) has increased by 1.2% from FY 2000–2013 or at an average annual rate of 1.7%. Total state spending (unadjusted for inflation) as discussed before, grew by an annual average of 3.4%. Obviously, inflationary pressures contribute to the growth in general fund spending.

Figure 28



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Per Capita	$1,227	$1,388	$1,544	$1,396	$1,390	$1,454	$1,663	$1,784	$2,146	$1,913	$1,753	$1,828	$1,894	$1,888
% Change		13.1%	11.2%	-9.6%	-0.4%	4.6%	14.4%	7.3%	20.3%	-10.9%	-8.4%	4.3%	3.6%	-0.3%

Real per capita general fund spending is a way of determining the "true" growth in general fund spending. This method removes the effects of both inflation and population growth. As shown in Figure 28, per capita spending has increased from $1,571 in FY 2000 to $1,754 in FY 2013. This represents a $183 real per capita increase or 11.7% increase over this fourteen year period. On an average annual rate, this is a 0.9% rate of growth for each year. In other words, when the effects of inflation and population changes are removed from the general spending amounts, actual growth in general fund spending has averaged 0.9% per year. This means that general fund spending is increasing because of other factors other than population changes and inflationary pressures. Some examples of these "other" factors would be additional public health services, full day kindergarten, correctional treatment programs, and appellate defender services to name a few.

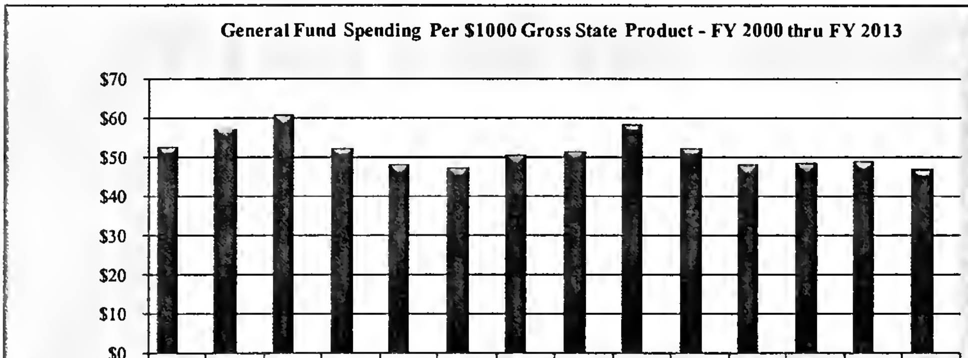
State General Fund Spending Relative to the State's Economy

The above discussion explains the reasons for the growth in state general fund spending. This section discusses general fund spending relative to the state's ability to support that level of state spending. Figure 29 shows how general fund spending has varied over the fourteen year period based on a percentage of Montana's gross state product (GSP). Gross state product is a broad measure of the size of Montana's economy. The data in Figure 29 shows the ratio in dollar terms of general fund spending to $1000 of Montana's GSP.

This figure portrays some interesting trends that were not apparent in the previous figures. For example, FY 2002 general fund spending in relation to GSP was the highest year during the fourteen year period FY 2000 through 2013. During the early years of this decade, general fund spending was increasing faster than Montana's GSP. Beginning in FY 2003, this trend was reversed when the legislature made numerous adjustments to the state general fund budget to maintain fiscal solvency. This trend remained stable until FY 2008 when the legislature approved numerous "one-time only" spending as discussed previously. As shown in Figure 29, the executive budget proposal would bring general fund spending in line with the historical pattern observed during FY 2003 through 2007. If this historical period represents the carrying capacity of Montana's economy to support a

level of state government services, then the general fund executive budget as proposed is not adding additional burden on the taxpayers of Montana. However, if an argument is made that spending during this historical period was too high, then governmental services would need to be reduced in the 2013 biennium budget to reach the desired fiscal policy goals. Since the executive budget includes a limited number of new proposals (compared to previous biennia), reductions to the 2013 biennium budget would more than likely require a reduction in present law services.

Figure 29



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Per $1000 GSP	$52.98	$57.34	$60.99	$52.39	$48.22	$47.43	$50.66	$51.78	$58.49	$52.43	$48.17	$48.67	$48.93	$47.11
% Change		8.23%	6.37%	-14.10%	-7.96%	-1.64%	6.81%	2.21%	12.96%	-10.36%	-8.13%	1.04%	0.53%	-3.72%

SUMMARY

In summary, total general fund spending over the twelve year period (FY 2000-2011) has increased (on average) by 4.6% per year. If the executive budget proposal for FY 2012 and 2013 is included, the average annual growth rate declines to 4.2%. This decline in the average rate of growth occurs because the executive budget proposes only a slow increase in spending during the biennium, 4.4% in FY 2012 and 0.5% in FY 2013. This rate compares to the growth in Montana's gross state product of 5.2% per year over the twelve year period.

Inflation adjusted per capita general fund spending increased 1.1% per year from FY 2000 to 2011 and then declines to 0.9% per year when the executive budget proposal is included for FY 2012 and 2013. As mentioned previously, this means that general fund spending is increasing because of other factors other than population changes and inflationary pressures.

State Expenditures Perspectives
Major Expenditure Proposals

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State Expenditure Perspectives

PART TWO – MAJOR EXPENDITURE PROPOSALS IN THE 2011 BIENNIUM BUDGET

GENERAL OVERVIEW

Caution on Comparing Biennia

The standard biennial comparisons are used throughout the next sections and in Volumes 3 through 7. This methodology compares ongoing appropriations in FY 2010 and ongoing appropriations in FY 2011 to the Governor's requested HB 2 budget.

However, the 2011 biennium had a number of out of the ordinary appropriations and subsequent legislative direction on developing the 2013 biennium budget that mean the standard comparisons show a change in general fund that does not reflect the true change in operations or legislatively anticipated levels of funding from the previous biennium for three agencies. These appropriations are due to three circumstances:

- Legislative appropriations made in HB 645, the bill that implemented the federal stimulus. Federal funds were made available for certain ongoing expenditures in the Department of Public Health and Human Services (DPHHS), the Office of Public Instruction (OPI), and the Office of the Commissioner of Higher Education (OCHE). The legislature passed a statute that allowed the one-time federal funds to be replaced with general fund in the adjusted base budget for each of the three agencies.
- Additional enhancements to the federal stimulus received in the interim. Additional federal funds were received in the interim in DPHHS and OPI that were used to replace general fund. General fund has been incorporated in the executive budget for the 2013 biennium.
- Other one-time receipt of funds for ongoing operations. OPI received about $85.0 million in FY 2010 from Arch Coal for coal leases on Otter Creek. These funds caused a one-for-one reduction of general fund in the base year that has been replaced with general fund in the 2013 biennium executive budget.

The following adjusts the 2011 biennium expenditures and appropriations for DPHHS, OPI, and OCHE to provide a more comparable analysis of ongoing HB 2 general fund biennia to biennia spending.

The following adjustments were made:

- For all three agencies, the amounts specifically named in HB 645 that were allowed to be included in the general fund adjusted base budget.
- For OPI, replacement of the Otter Creek funds.

The following table shows the original and revised comparisons for the three agencies, and for HB 2 as a whole for all agencies.

Comparison of Biennium to Biennium with Preauthorized Adjustments HB 2 ONLY						
	FY 2010 Approp	Actual Base FY 2010	Appropriated Base FY 2011	Governor's Budget FY 2012	FY 2013	Biennial %
Section A	**88,534,471**	**$ 83,196,780**	**$ 86,854,541**	**$87,479,825**	**$87,522,441**	**2.9%**
Section B	**315,370,087**	**303,495,348**	**369,077,195**	**422,731,980**	**416,215,358**	**24.7%**
Department of Public Health & Human Services	315,370,087	303,495,348	369,077,195	422,731,980	416,215,358	24.7%
ARRA authorized replacement	73,708,000	73,708,573	27,994,723			
DPHHS Adjusted	**389,078,087**	**377,203,921**	**397,071,918**	**422,731,980**	**416,215,358**	**8.4%**
Section C	**31,168,553**	**29,098,711**	**30,028,822**	**31,492,585**	**31,320,044**	**6.2%**
Section D	**251,558,467**	**246,853,565**	**252,562,996**	**263,641,339**	**268,625,186**	**6.6%**
Section E (includes smaller agencies)	**802,015,593**	**719,477,679**	**885,772,254**	**856,377,772**	**863,089,738**	**7.1%**
Commissioner Of Higher Education	149,084,997	147,531,701	150,674,815	193,828,002	196,104,759	30.8%
ARRA authorized replacement	29,762,000	30,953,960	28,570,487			
OCHE Adjusted	**178,846,997**	**178,485,661**	**179,245,302**	**193,828,002**	**196,104,759**	**9.0%**
Office Of Public Instruction	640,836,659	560,053,258	722,904,404	650,266,733	654,798,000	1.7%
ARRA authorized replacemend	14,613,000	14,613,477	30,737,469			
Otter Creek replace trust revenue		81,552,855	(81,552,855)			
OPI Adjusted	**655,449,659**	**656,219,590**	**672,089,019**	**650,266,733**	**654,798,000**	**-1.7%**
Grand Total	**1,488,647,171**	**1,382,122,083**	**1,624,295,808**	**1,661,723,501**	**1,666,772,767**	**10.7%**
Grand Total - Adjusted for above	**1,606,730,171**	**1,582,950,948**	**1,630,045,633**	**1,661,723,501**	**1,666,772,767**	**3.6%**

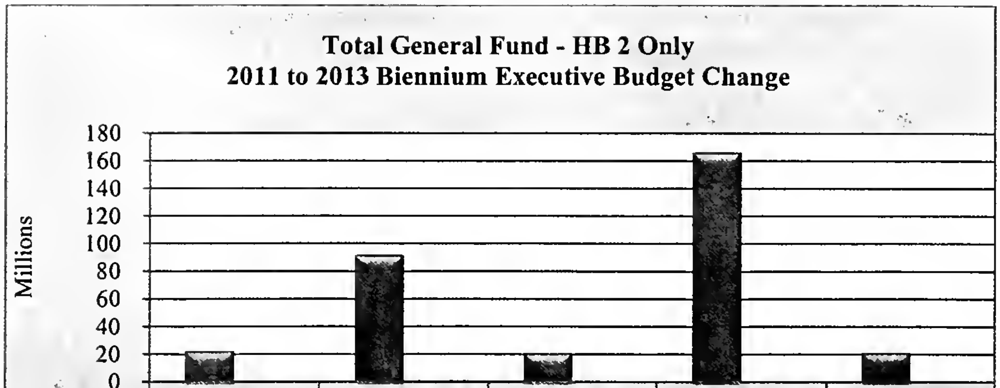
Note that before the adjustments, the increased general fund spending is 13.9% over the biennia. With these adjustments as intended by the previous legislature, the general fund increase from biennia to biennia is 5.0%. For the adjusted areas the changes include:

- The Department of Public Health and Human Services increase is reduced from 24.7% to 8.4%.
- The Montana University System increase goes from 30.8% to 9.0%.
- The Office of Public Instruction/K-12 Schools goes from an increase of 1.7% to a decrease of 1.7%.

GOVERNOR'S PROPOSAL

Figures 1 and 2 show the allocation of the increases in HB 2, by function, for general fund and total funds.

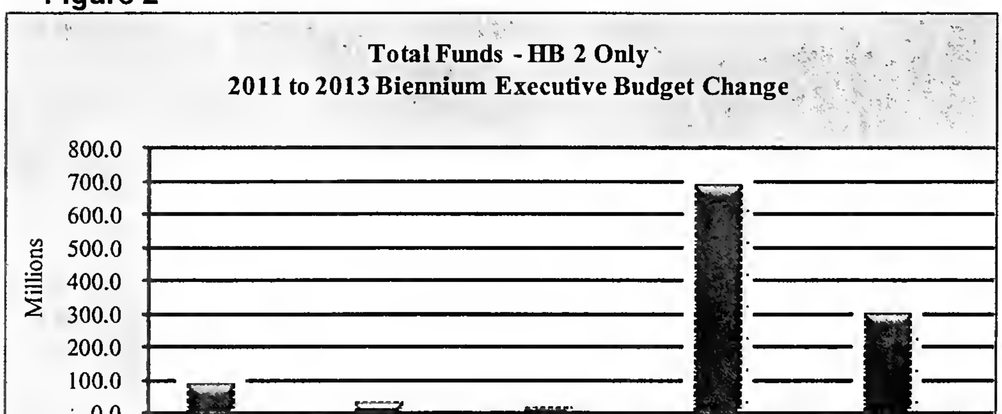
Figure 1



	Public Ed.	Higher Ed.	Corrections	Hum. Services	All Other
Change	$22.1	$91.7	$20.7	$166.3	$21.2
% Change	1.72%	30.75%	6.18%	24.72%	5.08%

Total increases are shown in the following figure.

Figure 2



	Public Education	Higher Education	Corrections	Human Services	Other Agencies
Change	$96.1	$37.6	$21.0	$696.7	$309.6
% Change	5.94%	7.44%	6.10%	23.09%	13.25%

As stated earlier, the Governor proposes a present law budget, with very limited new proposals. Also, while the executive generally does not propose new programs, they propose minimal program eliminations: 1) the Regional Development Program in the Department of Commerce; 2) the PACE program in the Department of Public Health and Human Services; and 3) the state day care program in the Department of Administration.

INCREASES ARE DOMINATED BY PRESENT LAW ADJUSTMENTS BUT THE ABILITY OF AGENCIES TO MAINTAIN PRESENT LAW SERVICES IS IN QUESTION

Background

The executive would add $322.1 million general fund and $1,161.0 million total funds in HB 2. Of this total $400.1 million general fund or 124.2%, and $1,109.5 million total funds or 95.6%, would be for present law, with negative $78.0 million general fund and positive $51.4 million total funds for new proposals.

Present law is defined in statute as "...that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature..."

Governor's Proposal

As stated above, present law changes are well over 100% of all general fund changes proposed by the executive, and over 95% of total funds.

- The executive replaced one-time funds that had replaced general fund in the 2011 biennium:
  - Federal stimulus money in human services and education identified by the last legislature as an ongoing expense
  - Other federal education and enhanced Medicaid match funds that became available during the interim
  - Funds to lease coal in Otter Creek
- State funds were added to replace federal funds due to changes in the regular federal Medicaid matching requirements (FMAP)
- The executive generally funds anticipated caseload and utilization increases in human services and population increases in corrections, and provides an inflationary increase for K-12 education
- The executive funds all statewide present law adjustments, including 4% vacancy savings for most positions (the 4% reduction to general fund ongoing personal services costs is in new proposals)
- All other general fund present law increases within agencies are minimal. For many agencies, statewide present law adjustments are the largest present law adjustment provided

Risks of the Executive Proposal - Can Existing Services Be Maintained?

There are several areas where the executive budget may be at risk of not being sufficient to fund present law services.

- The Department of Corrections is projecting greater populations in both secure care and community corrections than is currently funded in the executive budget (see corrections discussion below)
- Caseload projection in human services assume a low growth trend level (see human services discussion below)
- The executive budget does not fully fund BASE Aid for K-12 education (see K-12 discussion below)

- Most agencies would be provided a budget with very few present law changes, and with an additional reduction of 4% general fund personal services, requiring them to provide the same services with fewer resources
    - In most cases the FTE that would be reduced are not identified, making identification of risks and potential impacts to services unknown

K—12 Is Provided Inflationary Increases

Background

K-12 education is the single largest expenditure of general fund in state government, consuming $1,305.1 million in the 2013 biennium. This represents 39.2% of the total general fund.

K-12 is funded by a combination of state dollars, federal dollars and local taxes. In the 2011 biennium, federal dollars became much more important as a result of the federal stimulus package. The stimulus package provided $62.1 million in federal stabilization aid, $40.4 million of which was used to supplant state general fund for ongoing BASE aid to school districts, and $21.7 million of which was used as one-time-only BASE aid. This freed up $34.8 million in general fund which was transferred to the school facility and technology account for distribution to school districts for energy upgrades. In addition, the federal government supplied $30.7 million in education jobs money in FY 2011, which the state used for BASE aid, again supplanting general fund, and $84.6 million in stimulus dollars for the provision of greater Title 1 aid (to districts with high proportions of low income children) and special education.

The state's share of K-12 BASE aid is also funded by revenue received from state lands. During the 2011 biennium, this source was greatly enhanced by the receipt of $81.6 million in a bonus payment made by Arch Coal Company for an option to produce coal on state land. This payment supplanted general fund by the same amount.

A significant action taken by the legislature in the 2011 biennium was to reduce the K-12 at-risk payment from $5.0 million per year to $1 per year.

Governor's Proposal

The Governor would increase the K-12 education appropriation by $97.0 million, including $23.0 million general fund, from the 2011 biennium. The Governor proposes to:

- Fund BASE aid at FY 2011 entitlement rates ($26.1 million)
- Replace the federal stabilization money and Education Jobs money that the legislature designated as ongoing ($71.1 million)
- Replace the one-time-only state lands bonus payment money ($81.5 million)
- Restore the at-risk student payment ($10 million)
- Increase entitlements by inflation of 1.90% in FY 2012 and by 1.53% in FY 2013 ($29.6 million)
- Increase special education by inflation ($5.6 million)

- Shift budget authority for the quality educator payment from the general fund to a new Teach Montana fund, to be paid for with 90% of oil and natural gas revenues now being distributed to school districts (saving the general fund $72.9 million)
- Shift budget authority for the school facility reimbursements from the general fund to the school facility and technology account, to be paid for from existing balances in that account (saving the general fund $17.2 million)
- Delay deposit of streambed rents into the school facility and technology for two years until FY 2014 and continue to deposit these revenues into the guarantee account (possibly saving the general fund $22.0 million).

Risks of the Executive Proposal

- The executive underestimates BASE Aid costs to school districts for the 2013 biennium by around $8.4 million. New data on school district non-levy revenue, fund balance appropriated, and enrollments indicate that costs will be substantially higher than calculated by the executive.
- The executive uses revenue estimates for the guarantee account available for BASE aid that are $6.5 million higher than estimated by the Revenue and Transportation Committee.
- The revenue source to pay for the quality educator payment that will be deposited in the new Teach Montana fund is likely inadequate. The quality educator payment is currently $38 million per year but the school districts only received $33 million in oil and gas receipts in FY 2010. The executive relies on 9 quarters of the newly available oil and gas revenue from school districts to pay for 8 quarters of the quality educator payment in the 2013 biennium.
- Depending on streambed rents to fund school districts is risky because the PPL suit is in the US Supreme Court. The suit appeals the finding of the Montana Supreme Court that streambeds behind dams are state lands and thus subject to rent. Currently, only around $4.2 million per year in streambed rents is being paid to the state from Avista Corp and Pacificorp. If PPL loses in the US Supreme Court there will likely be $11 million per year available. If PPL wins, there will be nothing available for the state.

A further discussion of the agency and all issues begins on page E-25 of Volume 7 of the LFD 2013 Biennium Budget Analysis.

EXECUTIVE BUDGET INCREASES HIGHER EDUCATION FUNDING

Background

Higher education (Montana University System) is $389.9 million general fund in the 2013 biennium proposed budget ($542.6 million total funds), or 11.7% of total general fund expenditures. State funding for the university system is only a portion of the total. Other funding sources such as tuition are not appropriated by the legislature.

Governor's Proposal

The executive would increase general fund by $91.6 million (30.7%) general fund and $37.4 million (7.4%) total funds. The Governor replaced $59.5 million in the

2011 biennium federal State Fiscal Stabilization Funds (SFSF) from the American Recovery and Reinvestment Act (ARRA - the federal stimulus bill) with general fund in the 2013 biennium as allowed in HB 645 passed by the 2009 Legislature. This fund switch accounts for 65% of the general fund increase in the 2013 biennium. The 2009 Legislature used the SFSF funds in the 2011 biennium to free up general fund that had been included in HB 2 for the MUS educational units. The freed up general fund was then reallocated to higher education and other non-education programs for the 2011 biennium as one-time-only appropriations.

The Governor's proposed budget for higher education increases funding for community colleges due to projected enrollment growth and increases funding for university units by using a higher state percent share for present law adjustments than had been used in the 2011 biennium.

Risks of the Executive Proposal

- The executive funded only a portion of the base costs for the Bureau of Mines groundwater investigation program implemented in HB 52 passed by the 2009 Legislature
- The executive budget double counted the 1% MUS optional retirement program employer contribution increase, overestimating the 2013 biennium general fund cost by $2.4 million
- The legislature may wish to consider implementing service payback requirement on professional student exchange programs such as WICHE to improve the state's return on its investment in these programs

A further discussion and all issues begin on page E-123 of Volume 7 of the LFD 2013 Biennium Budget Analysis.

Human Services Caseload and Utilization Increases/Replacement Due to Reduced Federal Match Rate

Background

Total spending in the 2013 biennium for human services (Department of Public Health and Human Services) is $838.9 million general fund (25.2% of HB 2) and $3,714.6 million ongoing total funds (41.4% of HB 2). Major programs include Medicaid, TANF, SNAP (formerly food stamps), protective services for children and seniors, developmental disabilities services, mental health services, and a variety of other programs, including public health. Most of the budget funds payments to service providers (such as medical providers) and for costs at six state facilities that provide medical services. As with K-12 education, given its budgetary significance small changes can have a major impact on expenditures.

Governor's Proposal

The Governor provides a $696.7 million increase in total funding ($166.4 million general fund) from the 2011 biennium to the 2013 biennium. The vast majority of the increase -$680.6 million - funds services for individuals who meet specific financial

eligibility criteria, and in some cases age and disability criteria as well. The most significant changes in services budgets are:

- Medicaid service utilization and enrollment changes - $276.4 million
- Supplemental Nutrition Assistance Program - $250.0 million
- Healthy Montana Kids (HMK) enrollment increases funded from the federal Children's Health Insurance Program block grant - $92.2 million
- Low-Income Energy Assistance Program (LIEAP) - $25.0 million

General fund increases between the two biennia are due in large part to discontinuation of the temporary increase in the federal Medicaid match rate of about 10% in FY 2010 and the first part of FY 2011 with a gradual phase down in the last half of FY 2011. The temporary federal increase reduced 2011 biennium general fund costs by an estimated $97.0 million compared to the 2013 biennium Medicaid budget request. In addition, regular changes in the federal Medicaid match rate add $12.0 million general fund in the 2013 biennium.

Risks of the Executive Proposal

- Projecting Medicaid expenditures has inherent budgetary risks due to the size of the expenditure and the variability of cost drivers (enrollment, service utilization, and federal policy changes) that are not always within the control of the legislature
- The 2013 biennium Medicaid budget is based on low cost trends between 2% and 3% per year
- The revised executive budget submitted in December lowered general fund by a net $4.0 million compared to the original submission in November. General fund changes over $0.1 million are:
    - Offset general fund state Medicaid match for increased enrollment in HMK with insurance premium tax state special revenue – $3.1 million
    - Reinstate a portion of funding for mental health crisis jail diversion services - $0.6 million
    - Remove a duplicate request for information technology facility maintenance contracts - $0.3 million

A more detailed discussion of the agency and all issues is included in Volume 4 of the LFD 2013 Biennium Budget Analysis.

CORRECTIONS PROPOSALS FUND POPULATION INCREASES

Background

Corrections, which includes both secure placements such as the men and women's prisons and non-secure placements such as probation and parole, totals $355.7 million general fund, or 10.7% of all general fund appropriations. Because it has very little other funds, it comprises only 4% of total funding.

Governor's Proposal

The executive budget increases funding for the Department of Corrections $21.0 million or 6.1% between the 2011 and 2013 biennia. This increase is primarily due to present law adjustments increasing funding for offender populations including:

- $12.3 million for 164 additional prison beds
- $10.1 million for additional community corrections beds

The increase in prison beds would come from relocating the male assessment and sanction program to another facility and the addition of 20 assisted living beds. The increase in community corrections beds is mostly in prerelease settings, including the addition of a 40 bed prerelease in northwestern Montana.

The department estimates that the total average daily population of offenders will increase 1.9% per year, while male prison population increases are estimated at 3.1% per year and community alternatives to prison are estimated to increase 4.9% per year. The executive budget does not provide funding to support the entire anticipated increase in ADP.

Risks of the Executive Proposal

- If populations rise as estimated, there is not sufficient funding or beds available within existing community and prison facilities.
- The department may be challenged to create programs that divert offenders from community and prison settings. This may result in more serious or higher risk offenders being supervised in community settings.
- Diverting more serious offenders to community based supervision may have a negative impact on offender recidivism, which in turn may increase system stress and demand for prison beds.
- Operating prisons at operational capacity may stress the maintenance of the inmate classification system.
- Higher cost segments of the system (prison and alternatives) are projected to grow at larger rates of increase than lower cost segments (probation and parole)
- Contracting, siting, and opening new facilities, such as a prerelease center in northwestern Montana, may not occur within the proposed timeframe, further challenging the available capacity within the system

A further discussion of the agency and all issues begins on page D-124 of Volume 6 of the LFD 2013 Biennium Budget Analysis.

Transportation Funding is Uncertain

Background

Transportation funding in the Montana Department of Transportation, totaling $1,355.6 million, is one of the largest expenditures of state government, and comprises 15.1% of total state funding in the proposed executive budget.

The agency does not utilize any general fund. Operations are entirely funded with state special revenues and federal funds. Federal funds are typically provided via multi-year authorization legislation. Congress has failed to reauthorize the last such multi-year authorization that expired at the end of FFY 2009. Federal-aid for highways has continued to be received through short-term extensions of the previous authorization at FFY 2009 funding levels. Short-term funding makes it difficult to plan and budget for state highway programs.

Governor's Proposal

Total funding for the Department of Transportation would increase by $234.0 million, or 20.9%. The highways state special revenue account (HSRA) is projected to end the 2011 biennium with a sizable balance of $87.0 million but would decline by $40.0 million during the 2013 biennium. The executive matches and appropriates all anticipated federal funds and additionally expands the 100% state funded highway construction program by four times its current level of $10.0 million per year, but offers little indications on how the expansion would benefit the traveling public.

RISKS OF THE EXECUTIVE PROPOSAL

- The HSRA is in an uncertain position, due to lack of a long-term federal reauthorization. This unknown could make determining the amount of total funds available for transportation, and the resulting impact on the driving experience and safety, problematic
- A fourfold increase in the 100% state funded construction program draws down the balance in the state fund and may not be sustainable, and little quantitative data on the system impacts are provided by the executive

A further discussion of the agency and all issues begins on page C-115 of Volume 5 of the LFD 2013 Biennium Budget Analysis.

FIRE SUPPRESSION COSTS – MINIMAL UP-FRONT FUNDING

BackGround

Montana has fire costs each year. These costs have ranged widely from year to year based upon the individual fire seasons but are generally increasing rapidly, going from an average yearly cost of $7.0 million prior to FY 2006 to $11.9 million this biennium. Fire suppression costs were paid from the Department of Natural Resources and Conservation's general fund authority and the Governor's emergency fund until such time the legislature could meet and provide a supplemental appropriation. This process forced DNRC to utilize general fund authority provided for other purposes to cover fire costs. After the severe fire season of 2008, DNRC was unable to use this process, and a special session was called to cover fire costs. During the 2007 Special Session, the legislature provided appropriation authority for the 2008 fire season and established a fire suppression fund with a $40.0 million general fund transfer. The fund was designed to provide for up front funding for fire suppression to alleviate the pressures on DNRC's budget and avoid further special sessions. Due to less than average fire seasons since 2008, the fund currently has a balance of $22.5 million, or about enough for two average fire seasons.

Governor's Proposal

The Governor would provide up-front funding for the costs of wildland fire suppression at a minimal level. The Governor is proposing, via HB 48, to transfer $20.0

million from the fire suppression fund to the general fund, leaving a balance of $2.5 million. The bill also establishes a transfer to the fund of any unexpended funds from the Governor's $16.0 statutorily appropriated emergency fund.

Risks of the Executive Proposal

- If fire suppression costs for the 2013 biennium are average, the funds remaining in the fires suppression fund are insufficient and will force DNRC to utilize general fund authority for other purposes to cover fires suppression costs until such time the legislature can provide a supplemental appropriation
- The greatest risk is the lack of funds for the 2011 fire season. If the state has a higher than average year, the fire suppression fund and the Governor's emergency fund may not be sufficient to cover costs and thus a special session would be required.
- If the Governor's emergency fund is fully expended in the 2013 biennium, there will be no funds available for transfer to the fire fund. Without a consistent means to replenish the fund, the Governor has not provided a long-term funding source for fire suppression.

A further fire costs discussion, including a summary of recommendations of the interim fire committee, begins on page C- 206 of Volume 5 of the LFD 2013 Biennium Budget Analysis.

Executive Pay Plan Proposal

Background

A pay plan provides for salary and/or benefit increases for state employees over the biennium. For several biennia, any increases have generally been provided beginning on October 1 of each fiscal year, and have been phased in over the biennium. Consequently, future biennial costs exceed the current biennium costs.

In the 2011 biennium, state employees did not receive a salary adjustment. Employees received an increase in the state contribution to the health care plan, and any state employee making less than $45,000 per year was given a one-time $450 bonus payment.

Governor's Proposal

The Governor has allocated $19.1 million general fund and $13.2 million other funds ($32.3 million total) in the 2013 biennium for a state employee pay plan. The pay plan consists of an across the board increase of 1% effective on January 1, 2012 (midway through FY 2012) and a further 3% effective January 1, 2013. The Governor also proposes $4.0 million general fund and $3.0 million other funds ($7.0 million total) as a biennial contingency fund for agencies unable to meet their personal services funding levels, and $75,000 in training funds. There is no proposed increase in the state contribution for health insurance.

Risks of the Executive Proposal

- State employee salaries were frozen in the 2011 biennium, and this pay plan does not maintain purchasing power in the 2013 biennium against projected inflation
- It is unclear whether state employees will have higher out-of-pocket medical costs
- It is unclear what impact health care reform will have on the cost or scope of health benefits

For a discussion of issues, see page 99 of this volume.

EXECUTIVE PROPOSAL ONE-TIME-ONLY EXPENDITURES

Background

The executive is proposing a negative ($9.2) million in general fund one-time-only (OTO) expenditures, and $15.8 million total funds. This figure contrasts sharply with the previous biennium, when a large beginning fund balance and federal stimulus funds resulted in OTO appropriations of $310.1 million general fund and $1,821.0 million total funds.

Governor's Proposal

The general fund OTO expenditures proposed by the Governor are dominated by a replacement of general fund on a one-time basis with funds from the Medicaid hold-harmless account in the Department of Public Health and Human Services that were available due to provision of additional federal funds under the federal stimulus in the 2011 biennium.

The Governor would also maintain the Court Help Program (formerly the Court Self Help Program) in the Judicial Branch first funded by the 2009 Legislature, and several economic development programs in the Department of Commerce that have been funded for several biennia. Both had been funded on a one-time basis with general fund freed-up due to the provision of federal stimulus funds in the 2011 biennium.

Risks of the Executive Proposal

- Several of the programs funded as OTO can be considered ongoing, as they have been funded for several biennia; therefore, the legislature will likely be asked to continue funding in the next biennium and should consider these expenditures when determining structural balance
- The Governor continues funding for brucellosis activities; it is not clear for how long these activities will continue, and whether this program is indeed ongoing

For detailed information, see page B-5 in Appendix B.

LOCAL GOVERNMENT ENTITLEMENTS INFLATION CAP

BACKGROUND

HB 124 of the 2001 legislative session changed the flow of certain revenues that previously went to local government entities, including counties, municipalities, and school districts, and replaced the flow of those revenues with statutorily appropriated payments referred to as "entitlement payments". The purpose of HB 124 was to streamline the revenue collection and distribution process and provide local government with a stable revenue flow each year. The legislation replaced the revenues that were changed to flow to the state general fund and provided for inflationary growth in the amount to which the local entities were "entitled". School District Block Grants increase each year by a factor of 0.76% and the counties and municipalities entitlement payments increase each year based upon the 4-year average change in the total state personal income and gross state product as reported by the U.S. Bureau of Economic Analysis. According to the executive, the adjustments over the past several years have ranged from 2.49% to 5.12%.

At the same time, and since, the state also assumed certain activities historically performed at the local level. Local welfare functions, district court functions, and later, public defender program functions were taken over by state funded programs, lessening the amounts due the local entities. The assumption of these activities by the state resulted in reductions to the entitlement payments to offset the program costs the state was assuming.

GOVERNOR'S PROPOSAL

The executive budget proposes to reduce the inflation rate for the local government payments down to the same level applied to the school district payments (0.76%) for a reduction of entitlement payments by the state of $10.56 million in 2013 biennium.

LFD ANALYSIS

In anticipation of this being a topic of discussion for the 2011 Legislature, the Legislative Fiscal Division (LFD) staff performed an analysis, looking at related revenue collections that were the subject of the switch to the entitlement payments to locals. The LFD also looked at the expenditures of those programs that were assumed by the state.

In the case of each relevant revenue source and program function, the amount of revenue received previously by the local governments or expenditures reported as spent for the state-assumed activities was determined. At the same time, comparable data was found that allowed the extension of revenue and costs through the years since the 2001 HB 124 changes. The projected net gains or losses of the local entities were then compared to the local government entitlement for each year from 2002 to 2010. In a review of the data, it appears that state government gave up a great deal more over the period than did the local government. This appears true for counties in every year, but not for the municipalities. In some of the middle years (2004-2008), the municipalities gave up more, primarily because gaming revenue grew steadily in those years. What the state gained in revenues in those

years, however, was more than offset by the downturn in gaming revenues that has occurred since 2008.

The following figure summarizes the analysis for a single year (FY 2010 because it is the most recent year). The table shows the costs assumed by the state versus the revenues given up by local government as projected forward from 2001 to 2010.

Local Government Entitlement
Costs Assumed by the State versus Revenues Given Up By Local Government
FY 2010 (Dollars in Millions)

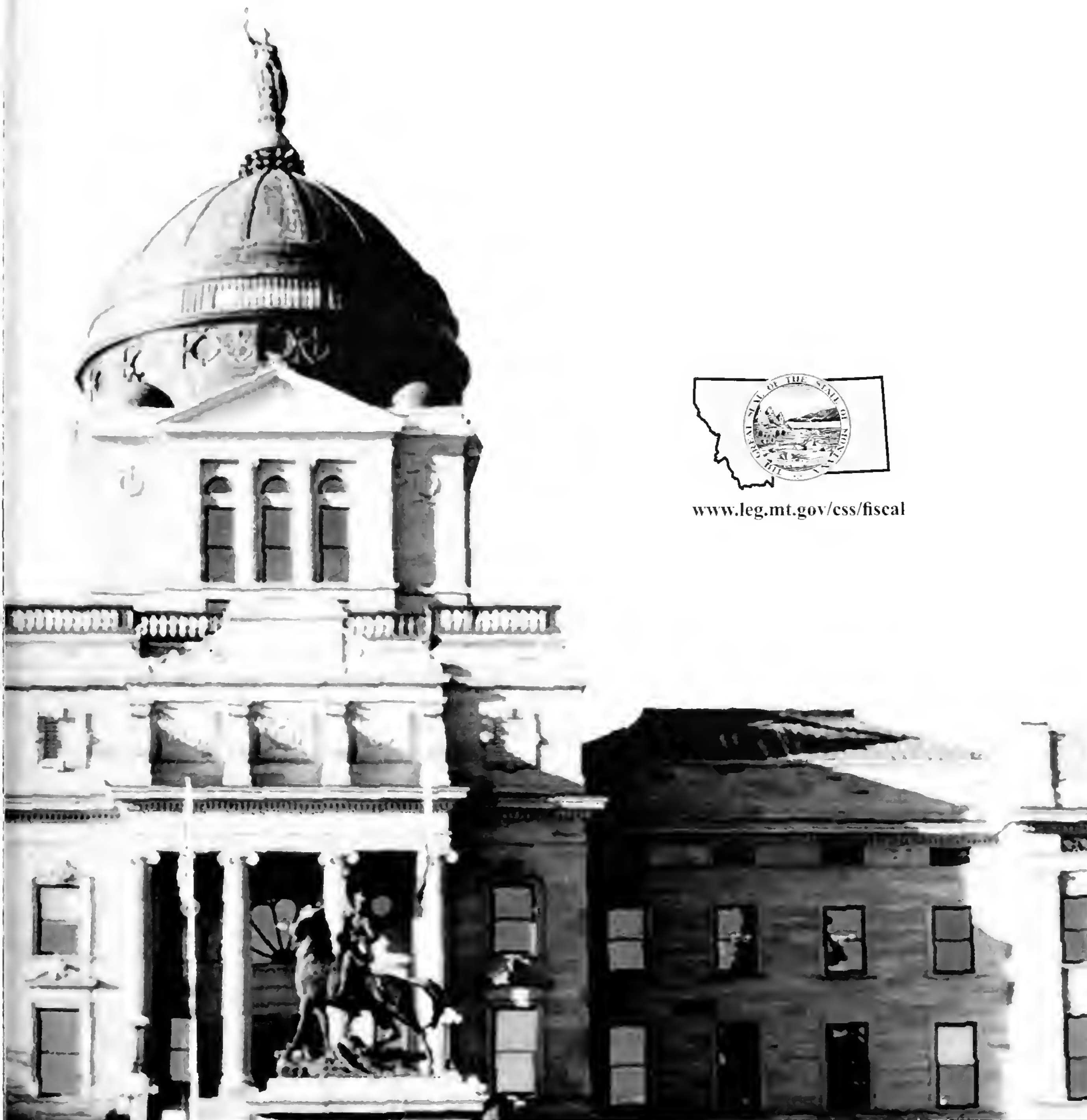
Actions of HB 124 and Other Legislation	FY2010 Data Counties	FY2010 Data Municipalities
State Costs		
Local Government Entitlement Share Paid by State	$ 39.6	$ 55.1
Program Expenditures (of counties, municipalities) Assumed by State	40.7	3.1
State Spending	80.3	58.2
Revenue Given Up by Local Government - Moved to State GF		
Local Share of Revenue Replaced by "Entitlement Share"	(51.6)	(48.6)
Amount State Costs Exceed Revenues Given Up by Locals	$ 28.8	$ 9.6

Choosing to portray FY 2010 may in itself raise some questions. It is the most recent year that could be analyzed, but it also reflects the high differences of state cost versus the revenues given up by local government. Arguably, it is relevant because it is where the economy has taken state finances and economist are forecasting a slow recovery. But with recovery, the gap between these two features will narrow. On the other hand, another factor to consider is that the programs that the state assumed have experienced higher costs and growth than was estimated at the time of assumption.

Conclusion

The data shows that local governments have fared better than the state overall. An adjustment to the inflationary factors for counties and municipalities could maintain a level of revenue that exceeds the pre-HB 124 revenue stream and maintain a stable revenue stream.

Major Issues Facing the Legislature



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Major Issues Facing the Legislature

This chapter provides a discussion of a number of budget issues that are not described in any detail elsewhere in this volume. These issues are listed below and discussed further in the pages that follow.

- Structural Balance
- Post-Session – What Happens if Revenues Fall?
- Fund Balance Adequacy
- Pay Plan - Issues
- Montana State Fund "Old Fund" Liability
- Pending Lawsuits
    - PPL v Montana
    - Lucas Ranch, Montana Farm Bureau and Montana Taxpayers Assoc v Montana Department of Revenue
    - South Point
    - Libby Asbestos
- Wildfire Funding
- Long-Term Stability of the General Fund
- Pension Plans Unfunded Liability
- Transfers to the General Fund from Other Funds
- Present Law Analysis

STRUCTURAL BALANCE

GENERAL FUND

Structural balance refers to the balancing of on-going expenditures with on-going revenues. If revenues equal or exceed expenditures, then structural balance is achieved for the short-term. If expenditures exceed revenues, then structural imbalance occurs. Figure 1 shows historical data for both revenues and expenditures since FY 2000. It should be noted that the data for FY 2000 through 2011 represent total revenues and expenditures and have not been adjusted to reflect "on-going" amounts. Since this type of categorization has not been maintained on a historical basis, the only on-going amounts shown in Figure 1 are for FY 2012 and 2013.

Total general fund revenues exceeded total expenditures for 6 of the past 11 years from 2000 through 2010 (see Figures 1 and 2). In the mid- to late-1990's, the legislature placed a concentrated effort on achieving structural balance and made significant progress, reaching a sizable positive balance in FY 2000. It should be noted that during this time, Montana, as well as other states, were reaping the benefits of an information technology boom and the significant increase in individual income taxes due to capital gains income. The pendulum, however, shifted the other way beginning in FY 2001, where revenues were slightly above expenditures. The revenue shortfall in the 2003 biennium intensified the imbalance heading into the 2005 biennium. However, for the 2005 and 2007 biennia, structural balance was achieved.

Figure 1

General Fund Structural Balance
Figures in Millions

		End Fund Balance	Yearly Adjustments	Yearly Revenue	Yearly Disburse		Yearly Sur./(Def.)	Biennial Revenue	Biennial Disburse	Biennial Sur./(Def.)
A	2000	$176.000	$8.287	$1,163.638	$1,105.599		$58.039			
A	2001	172.897	(3.637)	1,269.472	1,268.938		0.534	2,433.110	2,374.537	58.573
A	2002	81.316	(1.391)	1,265.713	1,355.903		(90.190)			
A	2003	43.065	(8.805)	1,246.381	1,275.827		(29.446)	2,512.094	2,631.730	(119.636)
A	2004	132.873	(9.719)	1,381.565	1,282.038		99.527			
A	2005	299.792	(10.010)	1,530.949	1,354.020		176.929	2,912.514	2,636.058	276.456
A	2006	422.209	(19.010)	1,708.166	1,566.739		141.427			
A	2007	543.541	(7.767)	1,829.872	1,700.773		129.099	3,538.038	3,267.512	270.526
A	2008	441.505	13.469	1,953.540	2,069.045		(115.505)			
A	2009	396.335	6.836	1,807.968	1,859.974		(52.006)	3,761.508	3,929.019	(167.511)
A	2010	314.881	8.111	1,627.145	1,716.710		(89.565)			
A	2011	183.264	(0.466)	1,672.133	1,803.284		(131.151)	3,299.278	3,519.994	(220.716)
A	2012	31.830	(47.001)	1,753.767	1,858.200	*	(104.433)			
A	2013	(59.887)	(17.950)	1,825.963	1,899.730	*	(73.767)	3,579.730	3,757.930	(178.200)

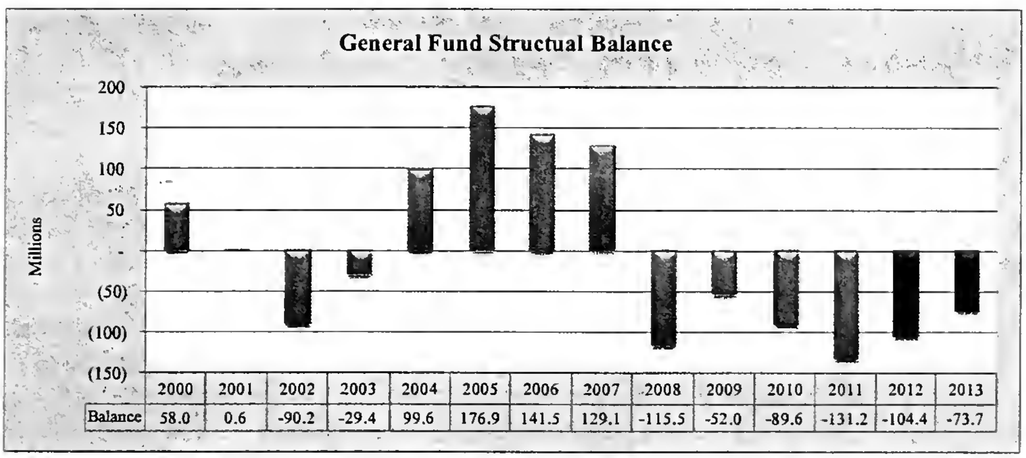
* Executive Budget On-going Expenditure Proposals

Historically, the legislature has faced the ever-present difficulty of holding down budget growth when confronted with double-digit growth in correction costs, increased human service demands, and pressures for increased education funding. The 2007 Legislature

enacted a structurally balance budget, but as Figure 1 shows, the 2009 biennium ended with a structural imbalance. Again, this is because the data shown for the 2009 biennium reflects total revenues and expenditures and has not been adjusted to show on-going amounts. The 2009 Legislature enacted a budget that showed a slight imbalance but as is shown above, the 2011 biennium is projected to have a significant imbalance.

Figure 2 shows that the anticipated revenues as projected by the Revenue and Transportation Interim Committee are $73.7 million below on-going expenditures in the executive budget proposal for the 2013 biennium. Further, the simple assessment of structural balance as matching on-going revenues to on-going expenditures, while useful to ensure short-term sustainability, is not a good measure of long-term sustainability. Issues such as the likely reduction in federal fund support (due to federal action to reduce a huge deficit) or considerations of future funding pressures (such as the cost of an aging population or the reversal of declining school populations) require more in-depth analysis than is used in the current calculation of structural balance. These issues are discussed in more detail in an assessment of longer term sustainability of the general fund, beginning on page 107 of this volume.

Figure 2



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Balance	58.0	0.6	-90.2	-29.4	99.6	176.9	141.5	129.1	-115.5	-52.0	-89.6	-131.2	-104.4	-73.7

EXPENDITURE PROPOSALS

There are several ways in which structural balance can be adversely impacted in subsequent biennia, on the expenditure side:

- Expanded expenditure growth, as is common with caseload driven entitlement programs such as Medicaid, can adversely impact structural balance
- Realization of delayed implementation of expenditures. Annualization of the 2013 biennium pay plan, which delays implementation until mid-year, will require additional funding in the 2015 biennium
- Growth in services arising from expansions in such programs as Medicaid or from increases in prisoner populations supervised by the Department of Corrections. For any increase in annual expenditures, there must be on-going revenue with which to fund it. In order to attain or maintain a structural balance, annual revenue growth must equal or exceed expenditure growth

- Growth in services arising from known demographic or other economic changes, such as the cost of an aging population

REVENUE PROPOSALS

- Implementing tax policy changes with delayed effective dates or phased in tax policy changes
- Transferring funds from other accounts that will not be available in subsequent biennia
- Implementing tax policies that provide inadequate funding in subsequent biennia

GENERAL FUND - CONCLUSION

From a short-term view point of assessing structural balance related to matching on-going revenues with on-going expenditures, the executive budget for the 2013 biennium is structural imbalanced. Reviewing each fiscal year individually, there is a structural imbalance in FY 2012 of $104.4 million and a structural imbalance of $73.7 million in FY 2013. Achieving long-term sustainability requires a more in-depth assessment and is a significant policy issue the legislature should address in order to make the budget process less problematic for both the legislative and executive branches in subsequent biennia. See the discussion of sustainability on page 108 of this volume.

OTHER FUNDS

In addition to issues of structural balance in the general fund, there are issues of structural balance in some of the state special revenue accounts included in the executive budget. A number of functions of state government are funded from accounts that receive their income from dedicated taxes and fees. One example is the highway special revenue account, which funds highway construction and maintenance and safety related costs. For the 2013 biennium, budgeted expenditures are nearly $40.0 million higher than projected revenues. A key contributor is a four-fold increase proposed for the 100% state funded construction program. Unknown risks are how much state funds will be needed to match federal funds and maintain state highways in the future. These are serious questions of long-term sustainability. In other parts of the executive budget, the legislature will find instances in which the executive has proposed expenditures that exceed revenue. By budgeting from these accounts at expenditure levels that exceed on-going revenues, the executive draws down the fund balance and creates program expenditure levels that cannot be sustained. Therefore, future legislatures would be faced with reducing program expenditure levels or increasing revenue. In agency sections of the Legislative Budget Analysis, staff has identified those instances in which expenditures from an account exceed anticipated on-going revenues.

POST SESSION – WHAT HAPPENS IF REVENUES FALL?

Budgeting is not an exact science and requires a significant amount of economic and budgetary forecasting. Since Montana adopts a budget on a biennial basis, numerous forecasts must be prepared almost three years in advance. During this period of economic uncertainty, it is likely that the budget outlook for the 2013 biennium could vary widely from month to month. To provide a perspective, every 1% change in revenues amounts to approximately $36 million for the biennium. A 10% downturn in revenues would be close to $360 million for the biennium, equivalent to the entire Department of Corrections general fund biennial budget.

What happens if revenues fall after the legislature adjourns? This question cannot be answered without knowing the policy issue of an ending fund balance. If the legislature adjourns with a minimal ending fund balance (about $50 million), then MCA 17-7-140 provides statutory guidelines to the executive in the event of a revenue shortfall. In essence, this section of law requires the executive to submit a "reduction in spending plan" to the Legislative Finance Committee (LFC) prior to implementing reductions in spending. The LFC, after receipt of this plan, may submit recommendations to the executive prior to the executive implementing spending reductions. If spending reductions of more than 10% are required to maintain fiscal solvency, then the Governor would be obligated to call a special legislative session to address the fiscal conditions.

If the legislature adjourns with a higher projected ending fund balance (executive recommends $238.5 million), then the excess balance would be used in the event of a revenue downturn. There are policy issues relevant to budgeting for a higher ending fund balance. First, using an ending fund balance in the event of a revenue shortfall does not provide the legislature the opportunity to re-prioritize spending during a period of declining revenues. Today's priorities may not be the same two years from now. Second, using the ending fund balance for on-going programs could create a structural imbalance that could not be addressed until the next legislative session. This may limit the options available to the next legislature to address the fiscal imbalance. Third, if the revenue decline is longer term (beyond the biennium), then the utilization of an ending fund balance is not a prudent fiscal policy. This is merely a policy to "get you through the biennium". And finally, how high should the ending fund balance be? As mentioned above, a 10% decline in revenues for the biennium would be about $360 million. Even the executive's proposed ending balance would not be adequate in that case. If the budgeted ending fund balance is not adequate to maintain solvency, then the provisions delineated in MCA 17-7-140 would be required.

The legislature may want to consider their involvement in the development of fiscal policies in the event of a revenue shortfall. As discussed above, the existence of an unrestricted large fund balance reserve leaves the Governor much flexibility in determining a response to a revenue shortfall without calling the legislature into special session. Options to consider might include setting aside a portion of the projected fund reserve into a rainy day fund or other restricted category that would require legislative action to access the funds.

FUND BALANCE ADEQUACY/RESERVE

Attaining general fund budget stability means more than setting appropriations equal to anticipated revenues, with a positive ending fund balance serving as a safety net. The adequacy of the state general fund balance can signify the difference between whether or not the state is forced to confront the unpleasant consequences of fiscal instability. The legislature needs to be aware of the tenuous nature of the projections and keep in mind the need to maintain an adequate reserve.

BACKGROUND

Montanans are all too familiar with the consequences of general fund balance inadequacy. In the late 1980's and early 1990's, the state general fund experienced a chronic deficit between revenues and disbursements. Much of the growth in the disbursement rate is a result of natural growth in expenditures due to inflation and/or caseload and enrollment increases, as well as supplemental spending for such contingencies as fire suppression. Revenue growth in the state has not always kept pace with expenditure growth. During the 2003 biennium and again in FY 2009 and 2011 bienniium, actual revenue growth was well below forecasts, primarily because of reduced income tax collection and lower interest rates, largely due to circumstances that could not be predicted when the budgets was being approved. The legislature adjourned from the 2001 regular session with a projected 2003 biennium general fund ending balance of $54 million (2.3% of biennial appropriations). By the end of the first fiscal year, revenue collections for the biennium were $153 million below legislative estimates. Even after the Governor directed statutory spending reductions of $23 million, a special session was necessary to achieve an acceptable ending fund balance reserve through an additional $59 million in budget balancing actions. Revenues still remained unstable as the Fifty-eighth Legislature imposed additional reductions as it shaped the 2005 biennium budget, ending the session with a projected fund balance of $46.2 million or 1.7%. As the economy bounced back in the 2005 and 2007 biennia, Montana witnessed extraordinary revenue growth, with a record fund balance approaching $1 billion projected through the 2009 biennium. The Governor's proposed budget for the 2009 biennium coupled with the 2007 Legislature's actions through appropriation and tax relief measures, resulted in a projected 2009 biennium ending fund balance of $184 million. A 2007 special session to address wildfire costs reduced that amount to $125 million. The 2009 Legislature ended the session with a $282 million fund balance. Less than a year later, the Governor was implementing statutory spending reductions again. The past decade has been an extremely volatile financial time.

ADDRESSING FUND BALANCE ADEQUACY

Recognizing that budgetary imbalances and revenue swings can occur, the state can either take a reactive or a proactive approach. During the 1993, 1995, 2003 and 2009 biennia, the state held special legislative sessions to deal with general fund shortfalls or specific budget needs such as fire costs. Although special sessions allow lawmakers the ability to address issues relative to revenues and expenditures, special sessions can cost the taxpayers more than $50,000 per day. The need for special sessions is also closely

scrutinized by the national agencies that rate the state's debt. Rating agencies also use a state's general fund balance as a percent of revenues as a key financial indicator for credit analysis.

Again from a reactive stance, budgetary fluctuation can be temporarily resolved through spending reductions. In accordance with 17-7-140, MCA, the Governor can authorize spending reductions: "...in an amount that ensures that the projected ending general fund balance for the biennium will be at least 1% of all general fund appropriations during the biennium." Essentially, the executive branch assumes control of the budget decision-making process by implementing and prioritizing spending reductions. Further, budgetary imbalances can be addressed only from one side of the equation -- expenditures. This means that legislative priorities could potentially get lost in the process.

Because of the cost and disadvantages of taking a reactive approach to budget imbalances, a more effective method may be to approach these issues proactively through provision of adequate fund balance reserves. National fiscal experts such as the National Conference of State Legislatures (NCSL) recommend a reserve fund balance of 3% to 5% of total appropriations or revenues. A recent report by NCSL[3] stated that "a reserve of 5% of budgeted expenditures is a conventional standard of adequacy, although what is appropriate for each state will depend on circumstances." Because Montana's budget is implemented on a biennial basis -- resulting in considerably more risk than an annual budgeting process -- the 3% to 5% should be applied to biennial totals. For Montana, with projected total general fund revenues of $3.6 billion, a minimum 3% reserve equates to a $108 million ending fund balance and 5% translates to $180 million. The revenue volatility of recent years might suggest that an even higher reserve would be more prudent.

The provision of an adequate general fund balance is essential to achieving a sound financial foundation. The level of fund balance reserves must be sufficient to offset the volatility of revenues and the potential for unforeseen expenditure increases, both of which are prevalent in recent years and in current budget proposals. It is even more important since Montana is one of only three states that do not have a rainy day fund provision (although the legislature is expected to consider one or more "rainy day fund" bills this session). To this end, the legislature will again need to determine what amount of ending fund balance is sufficient to ensure budget stability.

EXECUTIVE RECOMMENDATION

The executive budget balance sheet as revised on December 15 shows an ending fund balance of approximately $238.5 million, or 6.6% of the executive revenue estimate. The original executive budget recommended a fund balance of $129 million with a minimum ending fund balance of $125 million.

[3] National Conference of State Legislatures, *NCSL Fiscal Brief: State Balanced Budget Provisions*, October 2010.

PAY PLAN - ISSUES

The Governor has allocated $19.1 million general fund and $13.2 million other funds ($32.3 million total) in the 2013 biennium for a state employee pay plan. The pay plan consists of an across the board increase of 1% effective on January 1, 2012 (midway through FY 2012) and a further 3% effective January 1, 2013. The Governor also proposes $4.0 million general fund and $3.0 million other funds ($7.0 million total) as a biennial contingency fund for agencies unable to meet their personal services funding levels, and $75,000 in training funds. There is no proposed increase in the state contribution for health insurance.

The following figure shows the total pay plan each year by branch of government.

Governor's Proposed Pay Plan, by Year and Recipient
2013 Biennium

	-- FY 2012 --			-- FY 2013 --			-- 2013 Biennium --		
Entity	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
					— On-going —				
Pay Plan Increase									
Consumer Counsel	$0	$2,601	$2,601	$0	$13,124	$13,124	$0	$15,725	$15,725
Legislative Branch	41,564	7,024	48,588	207,912	35,323	243,235	249,476	42,347	291,823
Judicial Branch	128,242	6,688	134,930	647,161	37,938	685,099	775,403	44,626	820,029
Executive Branch	1,143,558	1,653,520	2,797,078	5,763,057	8,317,748	14,080,805	6,906,615	9,971,268	16,877,883
University System	1,176,391	14,817	1,191,208	5,917,817	74,686	5,992,503	7,094,208	89,503	7,183,711
Subtotal	$2,489,755	$1,684,650	$4,174,405	$12,535,947	$8,478,819	$21,014,766	$15,025,702	$10,163,469	$25,189,171
Training Allowance*	75,000	0	75,000	0	0	0	75,000	0	75,000
Personal Services Contingency*	4,000,000	3,000,000	7,000,000	0	0	0	4,000,000	3,000,000	7,000,000
Total	$6,564,755	$4,684,650	$11,249,405	$12,535,947	$8,478,819	$21,014,766	$19,100,702	$13,163,469	$32,264,171

*Biennial appropriations

The following shows the biennial amount, by funding source and component.

Proposed Executive Pay Plan by Component
2013 Biennium

		--- 2013 Biennium ---			
Component	General Fund	State Special	Federal	Proprietary	Total Funds
Pay Increase	$15,025,702	$6,094,869	$3,922,825	$145,775	$25,189,171
Training	75,000	0	0	0	75,000
Personal Services Contingency**	4,000,000	2,400,000	500,000	100,000	7,000,000
Total	$19,100,702	$8,494,869	$4,422,825	$245,775	$32,264,171

*Does not include non-appropriated university funds or proprietary funds.
**The contingency is proposed by "general fund" and "other funds". Table is an extrapolation of funding for the other components and does not represent the executive allocation.

LFD COMMENT

What Personal Services Goals is the Governor Addressing?

There are a number of potential goals for any pay plan:

Maintenance or increase of purchasing power through one or both of two means:

- Inflationary adjustments to salaries
- Increase in benefits to meet rising medical and other benefits costs

Attempts to recruit and/or retain qualified employees throughout state government, which is generally addressed through such measures as:

- Adherence or regular movement to market salaries
- Opportunities for career path advancement within and among job descriptions
- Special allowance for difficult to hire/recruit positions
- Longevity adjustments for continued service

Statewide compensation equity among and within agencies for like work, the evidence for which is lack of a wide discrepancy in salaries as a percent of market (both experienced and starting positions), and similar movement to market over time for similar positions

The Governor has proposed a pay plan that provides an across-the-board pay increase for all state employees. Therefore, the primary goal appears to be to maintain or increase purchasing power. No proposals were submitted to maintain purchasing power for health insurance, to move salaries generally or for specific skills to market compensation, or any other measures to increase equity or the ability of agencies to recruit and retain either generally or for hard to fill positions.

Salary Adjustment

LFD COMMENT

Salaries to Inflation

According to the Mercer and Culpepper surveys of compensation in the U.S., the average salary increase was 3.2% in 2009 and 2.7% in 2010, and was expected to be 2.9% in FY 2011, when state employee salaries were frozen. So, even though unemployment increased, those who were working generally received salary increases. Consequently, not only did/will state employees lose purchasing power against inflation in those years, but will also lose overall salary to market ratio, with high demand positions likely losing a greater share.

The Governor has addressed maintenance of some portion of purchasing power in the provision of a salary increase. As stated, the Governor did not propose any funds to address equity issues in or among agencies or targeted movement to market.

In examining the Governor's pay plan there are a number of factors to keep in mind.

- State employee salaries have not been increased since FY 2009, although employees making less than $45,000 received a one-time biennial payment of $450 in the 2011 biennium that was not continued in the 2013 biennium. General inflation (consumer price index – CPI) is expected to increase by about 1.9% in FY 2012 and a further 2.0% in FY 2013 (please note that medical inflation is a portion of this increase). Coupled with the lack of increase in the 2011 biennium, state employees will continue to lose ground against inflation in the 2013 biennium under the Governor's proposal
- Any advances to market must be done internally within the agency outside of the pay plan funding if the Governor's pay plan does not include a component that addresses salary progression. This has two impacts:
    - Agencies with fewer resources will be at both an actual and competitive disadvantage to agencies that have more available resources
    - A larger and larger share of personal services adjustments will continue to be made outside of the pay plan and therefore outside of direct appropriation by the legislature
- Agencies generally report that the number of applicants has increased, along with a corresponding increase in minimally qualified candidates, likely due in part to the economy. Improvements in the economy could have a negative impact on turnover and ability to hire at current salary rates

LFD ISSUE

Future Costs

As stated, the pay increase proposed by the Governor would take effect on January 1 of each fiscal year. Consequently, costs of the pay plan will be significantly higher than the $15.1 million general fund biennial cost in HB 13.

Prior pay plans have taken effect on October 1. So, January 1 is the latest any pay increases have been proposed. The movement effectively reduces the costs in the 2013 biennium, while increasing costs into the 2015 biennium. The estimated cost in the 2015 biennium to maintain this pay plan is almost $40 million general fund.

Health Care

As stated, the Governor's pay plan proposal does not include any funding for increased health care costs. The issue of whether state employees will see an increase in deductibles or other out-of-pocket medical costs is not clear at this point. The Health Care and Benefits Division in the Department of Administration has not requested an increase in the per employee contribution in the 2013 biennium. However, group health plan medical, dental, and pharmacy costs are anticipated to increase from 8% to 10% per year. Reserve levels are within 10% of the top of the reserve level benchmark.

In addition, it is not clear what impact health care reform will have on costs. The plan is voluntarily offering a requirement of health care reform prior to the implementation date by offering coverage to children of covered members until they are 26 years old. At the same time, costs could be lowered due to shifting of some children to Healthy Montana Kids and the availability of certain grant funds.

LFD COMMENT

Integration of Pay Plan and Budgeting Discussions

Personal services is the single largest expenditure for most agencies, as most agencies directly provide services through the efforts of those employees. Consequently, issues pertaining to personal services and their adequacy to meet certain goals of state government take on a high importance. The size and character of any pay plan is an important component in addressing those issues. Given its size and importance, the pay plan discussion should be integrated with other budgeting policy decisions of the legislature.

The Governor proposes an overall budget that essentially keeps operating expenses flat, and includes an ongoing reduction in personal services, with little to no change in expectations as to the provision of government services. Therefore, under the Governor's budget state government is to continue providing the same services with stagnant or reduced resources. The ability of state agencies to recruit and retain a qualified workforce has been an ongoing issue for several years, particularly in light of the aging state workforce and recent stagnant pay, and takes on an added significance given the Governor's budget recommendation. Salary and benefits, particularly in relation to competition with the private sector or others, play an important part in agencies' ability to recruit and retain qualified workers. Therefore, any discussion of the policy behind the pay

plan should be discussed in tandem with issues of what state government is expected to do in the 2013 biennium and the challenges faced in doing so.

The legislature may wish to expand the discussion of any pay plan proposal to include the broader goals the pay plan is designed to address, and how success of the pay plan in furthering those goals will be measured. As a part of this discussion, the legislature may wish to articulate specific reporting requirements on recruitment and retention issues and have the Department of Administration report to the Legislative Finance Committee and any other appropriate interim committees during the interim.

LFD COMMENT

Aging Workforce and Turnover

State government has for several years been facing a major brain drain across all agencies as the state's aging workforce prepares to retire. While the economic conditions may have slowed or delayed the most significant turnover, a number of agencies report high percentages of its workforce eligible for full retirement now or in the next biennium. These workers will have to be replaced.

In addition, various factors will influence turnover and the ability of state agencies to replace workers and the cost of doing so, especially in certain high demand professions. Workers of the baby-boom generation placed a higher value on job stability and loyalty. Benefit packages are therefore a more powerful incentive to stay in a job. According to numerous sources younger workers no longer value as highly the kind of stability in employment that can be partially addressed through benefits such as pension plans, but rather in skills acquisition, salary, and life balance.

LFD COMMENT CONT.

Surveys consistently show that state employees are generally paid a lower salary than similar workers in the private sector, but generally get better benefits. As stated, younger workers who will replace the current generation are not as motivated by factors that benefits are designed in part to address. As a consequence, even if the competitive advantage in benefits can be maintained, the state will have difficulty competing for workers in the future.

The legislature may wish to discuss with the executive long-term strategies for addressing the aging workforce and ongoing brain drain; and hiring, retaining, and motivating younger workers.

MONTANA STATE FUND "OLD FUND" LIABILITY

Statutes require that in any fiscal year when the Montana State Fund (MSF) is not adequately funded to pay claims arising from accidents that occurred before July 1, 1990, the funds to pay these Old Fund claims must be transferred from the general fund. As of June 30, 2010 estimated liabilities exceeded assets by $60.8 million. At this time, the Old Fund is projected to have sufficient invested assets to meet its obligations until sometime in FY 2011, when up to $2.1 million in general fund will need to be transferred to MSF. The general fund costs of benefits, claims, and administration in the 2013 biennium are estimated to be $18.1 million, comprised of $11.2 million in FY 2012, and $6.9 million in FY 2013.

General fund transfers required by statute are not included as part of the appropriation decisions of the legislature. Transfers are considered as part of the LFD general fund balance projections.

PENDING LAWSUITS

UPDATE ON PPL V MONTANA

In PPL Montana, LLC v. State, 2010 MT 64, the Montana Supreme Court determined that title to the riverbeds of the Missouri, Clark Fork, and Madison Rivers passed to Montana when it became a state in 1889. However, the Court also reversed the District Court's conclusion that the riverbeds are "school trust lands" and instead held that they are public trust lands under Article X, Section 11. The state and the Board of Land Commissioners (Land Board) have a fiduciary responsibility to manage the land for the benefit of the public. As part of the decision, the Court upheld the District Court's methodology of calculating damages, and PPL was ordered to pay approximately $41 million (plus interest) in compensatory damages to the state for improper use of the streambed. PPL subsequently filed a petition with the US Supreme Court, asking it to hear the case. On November 1, 2010, the US Supreme Court referred the case for comment to the US Solicitor General. The case remains at the Office of the Solicitor General at this time.

When the Montana Supreme Court ordered PPL to pay compensatory damages, DNRC concluded, and subsequently the Land Board agreed, that the compensatory damages should be used for the support of education for common schools, that the compensatory damages are to make the public land trust "whole" for the unlawful use of state land, and in purchasing land with the compensatory damages the trust receives assets to make it "whole". The board further concluded that the compensatory damages were from non-state, non-federal money and therefore legislative appropriation was not necessary for the expenditure of the funds.

Staff of the Legislative Fiscal Division (LFD) alerted the Legislative Finance Committee of the executive's plan, including the disagreement of treating the revenues as non-state, non-federal funds. The committee asked legislative legal counsel to research the issue, who concluded an appropriation was necessary and the funds could be used to

support a variety of beneficiaries, including the common schools. The committee established a subcommittee to examine legislative options to address the action of the board. The subcommittee met with staffers of each land board member, and other interested parties. The subcommittee provided the LFC with the conclusion that the board and legislative staff had different legal interpretations and neither party was willing to change positions.

Since the case is at the US Solicitor General the need for resolution is not as immediate. It is undeterminable as to when the Solicitor General will provide comments to the US Supreme Court. This provides time for the legislature to determine public policy regarding the disposition of this type of settlement. A number of bill drafts have already been submitted to address the issue. Those drafts include distributing the funds to the guarantee fund for schools to use immediately, allowing a portion of the funds to be used to purchase land to increase the trust resource base, and deposit to the land banking fund. The legislature could also consider allocating the damages among all beneficiaries, including the K-12 Public Schools, units of the Montana University System, Pine Hills, School for the Deaf and Blind, Veterans Home, and Public Buildings.

Lucas Ranch, Montana Farm Bureau and Montana Taxpayers Assoc v Montana Department of Revenue

On February 12, 2010, petitioners Charles B. Lucas, Lucas Ranch, Inc., Montana Farm Bureau Federation (MFBF), and the Montana Taxpayers' Association (MTA) filed a petition for declaratory judgment and a writ of mandate against the Montana Department of Revenue (Department). The petition alleged that the Department failed to correctly calculate the phase-in amounts for agricultural properties that resulted in erroneous taxable values for Lucas, Lucas Ranch, and "all similarly situated agricultural landowners in Montana."

As a remedy, the petition requested the court to "immediately reassess the erroneously phased-in taxable values for all agricultural land in the state, and recertify its corrected values to the taxing jurisdictions." Alternatively, the petition alleged that the Department was violating "the affected taxpayers' rights under the equal protection clauses of the federal and Montana constitutions, as well as the Department's statutory and constitutional obligation to equalize taxable values throughout Montana." As the alternative remedy, the petition requested the court to issue a writ "ordering the Department to carry out its constitutional and statutory obligations . . . for tax year 2009 and the remaining years of the current reappraisal cycle."

On or around March 29, 2010, the Department submitted a responsive answer to the District Court. The Department generally denied most of the allegations in the petition, but it admitted that "it has publicly indicated that it will correct for tax year 2009 the [value before reappraisal (VBR)] for taxpayers that experienced productivity-only changes if those taxpayers filed timely AB-26s, or appeals for tax year 2009 and; that the Department would correct all other affected taxpayers in tax year 2010." Moreover, the Department alleged that: (1) MFBF and MTA do not have standing to assert an action before the court;(2) the action is moot, as the Department has acknowledged that it incorrectly

established VBR for properties that experienced a productivity-only change and it is correcting the error for all affected taxpayers; and (3) the parties have failed to exhaust their administrative remedies.

The matter stands there and it is unknown when the court might rule. If the plaintiffs are successful, it is unknown whether payments made in prior years to the state and local jurisdictions will have to be refunded.

SOUTH POINT

The State of Montana is listed as a defendant in a lawsuit over the state's cancellation of three 30-year lease contracts for a building in Helena. Under the signed leases, employees from the Department of Public Health and Human Services, Department of Corrections, and Board of Crime Control would have been housed in the yet to be constructed building. The developer for the building has sued the state for reimbursement of costs incurred after signing of the leases and their cancellation. The developer is also seeking compensation for lost profits associated with the building lease. The lawsuit represents a potential liability to the state of in excess of $3.5 million if judgment is made against the state. The lawsuit is currently in the discovery phase.

LIBBY ASBESTOS

The State of Montana is listed as a defendant in a lawsuit involving asbestos damages resulting from asbestos mining in Libby. The lawsuit involves thousands of parties under a class action lawsuit. The complexity of the case and long-term activities of similar lawsuits in other states with little resolution make estimating the risk and financial impacts problematic.

WILDFIRE FUNDING

Fire costs are based on estimated fire costs and costs that have already been paid. Fire costs are not settled until all reimbursement has been received and all bills have been paid. As of September 20, 2010 state fire costs were $1.9 million as described in Figure 3. State fire costs are paid from the fire suppression fund.

The impact of FY 2011 costs leaves an estimated balance of $22.5 million as detailed in Figure 4 below. The Legislative Fiscal Division calculates average fire costs by utilizing the last seven years of data and removing the

Figure 3

State of Montana Estimated Fire Expenditures - Summary Level		
Part 1: Fire Protection Costs:		
FY 2010	$5,811,359	
FY 2011	2,297,285	
Biennial Cost		8,108,644
Part 2: Reimbursements:		
FY 2010	849,640	
FY 2011	357,399	
Received and Anticipated Reimbursements		1,207,039
Estimated Biennial State Fire Costs		$6,901,605

Figure 4

Fire Suppression Fund *in Millions*	
FY 2010 Beginning Balance	$29.4
Estimated Fire Costs	6.9
Estimated Funds Remaining	$22.5

high and low year. Due to the relatively low costs of the last three fire seasons and the loss of a high year (FY 2004) from the data the average state cost of fire suppression has fallen. The average annual state fire cost is now $11.9 million, down from $18.3 million. Figure 5 illustrates the average fire costs.

Figure 5

Average Cost of Fire Suppression			
Fiscal Year	Total Costs	eimbursemen	State Costs
2005	$3,969,096	$989,945	$2,979,151
2006	8,302,312	3,240,042	5,062,270
2007	61,000,318	21,290,928	39,709,390
2008	81,544,805	31,544,805	50,000,000
2009	10,082,885	3,085,409	6,997,476
2010	5,811,539	849,640	4,961,898
2011	2,297,285	357,399	1,939,886
7 year total	$173,008,240	$61,358,168	$111,650,071
7 year average	$24,715,463	$8,765,453	$15,950,010
	$89,166,150	$29,455,964	$59,710,185
5 year adjusted	$17,833,230	$5,891,193	$11,942,037

The Governor proposes a transfer of $20.0 million from the fire suppression fund to the general fund. However, this transfer does not come without risk to the state.

The fire suppression fund was established by the legislature in special session in September 2007 from a transfer of general fund. Prior to the establishment of this fund, the Department of Natural Resources and Conservation (DNRC) utilized general fund authority appropriated primarily for agency operations to pay bills as they became due until the legislature could provide supplemental funding in the next legislative session. This meant that the department was in danger of not having enough general fund authority, particularly if the fire season was early and/or severe, which could potentially requiring a special session to provide additional funding as was the case in FY 2007. Even if the department was able to find enough general fund authority, to operate until the legislature convened it often required an emergency appropriation in the early days of session to allow the department to continue to operate.

While transfer of the fund balance would provide one-time relief to the general fund, it would once again require DNRC to finance any fire costs until the legislature could act. While the last three years have been mild fire seasons, as shown in the Figure 3, Montana has had severe fire seasons, and overall the costs to fight fires has been increasing.

The Governor is proposing to fund the fire suppression fund in future biennia by transferring any unexpended fund balance in the Governor's emergency fund to the fire suppression fund at the end of each biennium. However, if DNRC must access the fund to fight fires, there may not be any unexpended funds to transfer. For a further discussion, see 128 in this volume.

LONG-TERM STABILITY OF THE GENERAL FUND

INTRODUCTION

The state general fund is the primary account that funds a significant portion of the general operations of state government. Since this fund is critical to the operations of state government, its long-term stability is an issue that must be examined for development of sound fiscal policies. This section of the document discusses three key issues relevant to the 2013 legislative session and the necessary planning for subsequent sessions. The issues addressed are: 1) revenue stability; 2) reliance on federal funds; and 3) funding demands.

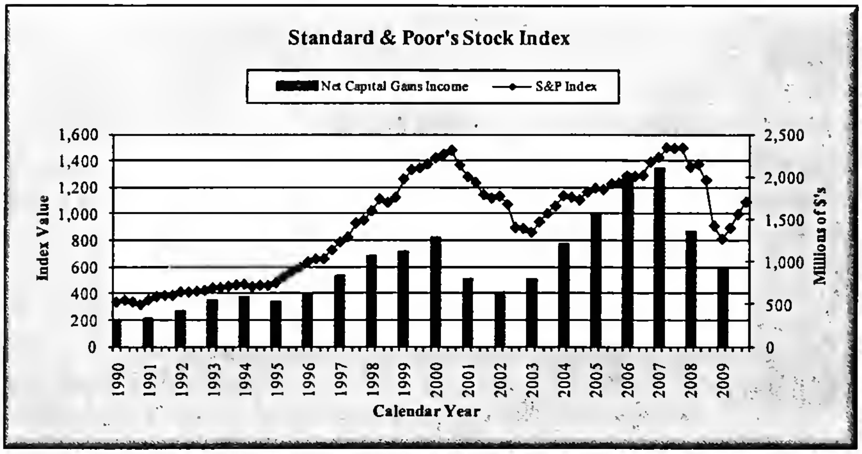
REVENUE STABILITY

There are three major components of general fund revenues that have contributed to increased revenue collections in recent years: capital gains income, oil and gas price and production, and corporate profitability. Reliance on capital gains upswings is the "poster child" of over-reliance on the income growth, and expanding government services based on unsound fiscal policy.

CAPITAL GAINS

The 1990's were generally good years for Montana's economy. With a few exceptions, Montana experienced above average employment and wage levels that translated into strong tax revenue growth. This revenue growth was further enhanced by the significant increase in the equity markets and the resulting growth in capital gains income. During calendar 2002 and 2003, however, the state's financial picture blurred as the effects of a national economic recession, terrorism threats, and mid-east tensions played havoc on the US economy. Although Montana's economic base remained relatively stable during this period, state general fund revenues plummeted. This inconsistency was due to the precipitous fall in equity markets, low interest rates, and reduced corporate profits. All of these factors contributed to the 2002/2003 budget crisis while the state's economy continued to outperform the national economy.

Figure 1



As Montana moves forward into the next century, there are valuable lessons that can be extracted from the financial experiences of the 1990's. For example, as the information technology age was exploding during the nineties, the equity markets were experiencing phenomenal growth rates. As shown in Figure 1, the S&P stock index reached a high of almost 1,500 in calendar 2000 and then declined abruptly until 2003 when the index dropped to about 850. Figure 1 also shows the corresponding trend in net capital gains realizations as reported on Montana's tax returns. As the figure shows, the trends in reported net capital gains income is highly correlated to the S&P index. This would indicate that state tax revenues experienced significant growth from the mid to late nineties due to the information technology investment euphoria. In the meantime, while this growth scenario was occurring, state general fund expenditures were increased along with passage of significant tax relief measures. The actions of the legislature, in essence, expanded the expenditure base and reduced the tax base based on the assumption that strong revenue growth would continue indefinitely. Obviously, the budget crisis of 2002/2003 refuted this supposition. For the calendar period 2005 -2008, an ominously similar pattern developed, clearly shown in Figure 1. Reliance on continued levels of capital gains income lead to another fiscal crisis. A careful assessment of the long-term stability of these levels of income is warranted. As shown in Figure 1, capital gains income plummeted in 2008 and 2009, which translated to a devasting decline in tax revenue during FY 2009 and FY 2010.

OIL AND GAS PRODUCTION

Again for the calendar period 2005-2008 , a similar situation has developed in the oil and gas production component of state revenues. Montana's oil and natural gas revenues have increased significantly when compared to previous biennia. The issue is whether these increased revenues are "on-going" or are a short-term "blip" (similar to net capital gains income) that may fade in the future.

Figure 2

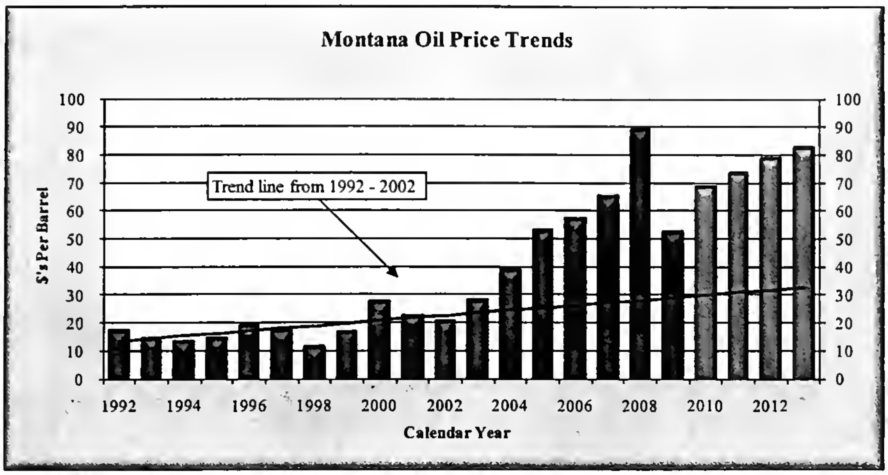
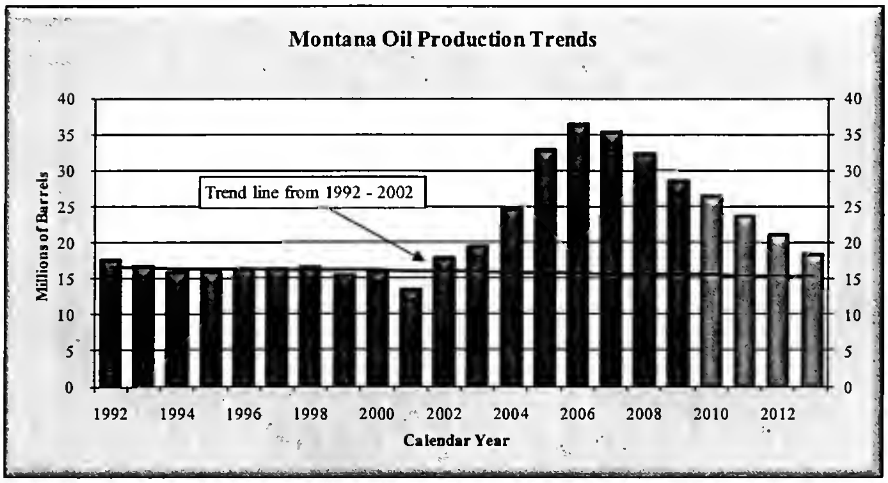
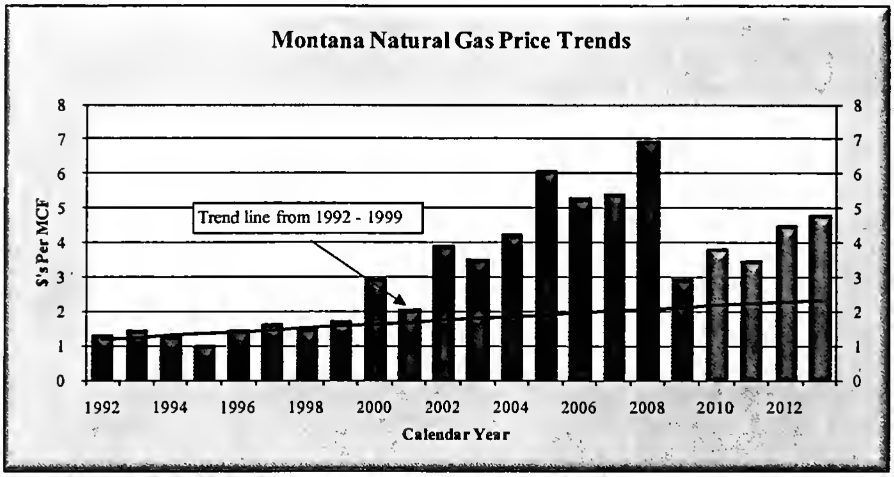


Figure 3



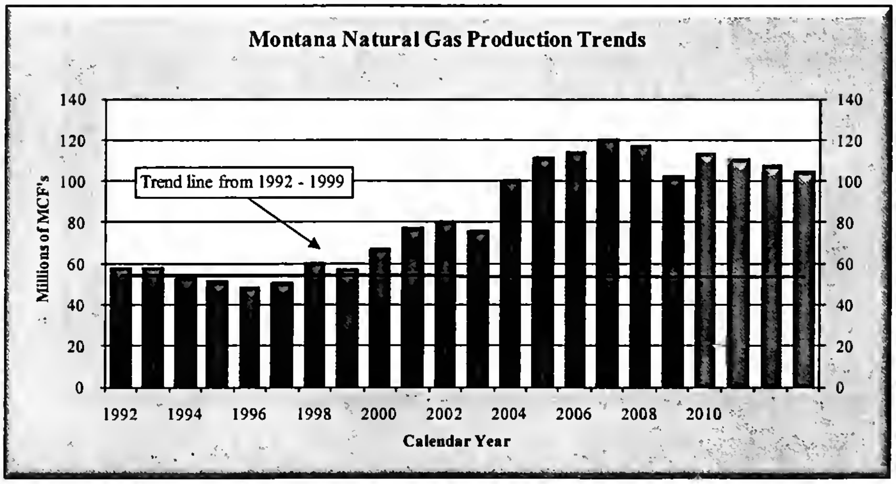
Figures 2, 3, 4 and 5 show the trends in Montana's price and production for oil and natural gas. The data shown for calendar 1992 through 2009 are actual information extracted from the Department of Revenue's computer system, GenTax. The estimates shown for the calendar period 2011 through 2013 are based on assumptions prepared by the Legislative Fiscal Division (LFD). In addition to the actual and estimated amounts, the figures also show a trend line based on the calendar years indicated in the annotations. These trends are based on a common statistical technique that minimizes the differences between the trend estimate and the actual amount. The trend lines are extrapolated into the future to indicate what the "trend" would be under a status quo situation.

Figure 4



As shown in the figures, both oil and natural gas prices have increased dramatically through calendar 2008. The increase in oil prices is primarily in response to strong world demand and limited supplies.

Figure 5



Based on October 2010 forecasts by IHS Global Insight, the LFD has developed its recommended assumptions for both oil and natural gas prices. As shown in the figures, it is quite apparent that the price assumptions recommended by LFD are expected to increase in calendar 2010 and are expected to grow each year thereafter. Natural gas prices are expected to decline slightly in calendar 2011.

It is clear from the price and production data shown in the figures that oil and gas tax revenues for calendar 2005-2008 have been considerably higher than the trend line would have produced. If the LFD recommended price and production assumptions are correct, state revenues will fall during the next biennium as compared to the current biennium. The issue then becomes what will be the level of "on-going" revenue from oil and gas

productions taxes. The question for the legislature is what a reasonable oil and gas price assumption is that will not create a boom or bust cycle into the future. One way to accomplish this goal would be to establish a revenue cap based on reasonable trends in price and production. Any collections above the trend amount would be diverted to a rainy day or trust fund to be used during unusual downturns.

Corporate Income

Corporate income taxes have traditionally been an extremely volatile source of revenue, directly tied to the national and world economic conditions and its erratic fluctuation. While corporate taxes declined during FY 2009 and FY 2010, this tax source is expected to increase during the 2013 biennium. Again, the issue for the legislature is to assess the long-term trend of this source and how sustainable these revenues will be into the future. A significant portion of previous growth in corporate income taxes was "fueled" by the natural resource industry. Lower oil and gas prices, compared to peak levels, however, are expected to reduce corporate profitability growth and the associated corporation tax payments. This is just one more example of a revenue source that can be quite volatile, which makes the long-term stability of general fund revenues questionable.

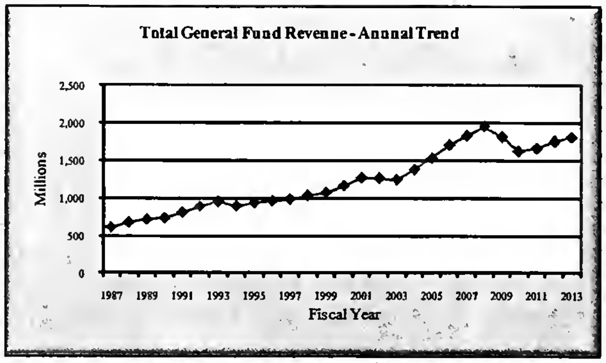
Revenue Stability-Summary

As shown in Figure 6, total general fund revenues have increased substantially during the period fiscal 2004 through 2008 and then declined dramatically during FY 2009 and 2010. Anticipated revenues are expected to begin a recovery starting in FY 2011.

Figure 6

General Fund Revenue Trends
Historical Collections and Legislative Estimates

	Fiscal Year	General Fund Collections Millions	Year to Year Change Millions	GF Percent Change
A	1987	609.742		
A	1988	676.718	66.976	10.98%
A	1989	711.968	35.250	5.21%
A	1990	730.351	18.383	2.58%
A	1991	805.288	74.937	10.26%
A	1992	892.727	87.439	10.86%
A	1993	953.063	60.336	6.76%
A	1994	891.859	(61.204)	-6.42%
A	1995	935.348	43.489	4.88%
A	1996	963.193	27.845	2.98%
A	1997	986.570	23.377	2.43%
A	1998	1,034.382	47.812	4.85%
A	1999	1,069.982	35.599	3.44%
A	2000	1,163.638	93.657	8.75%
A	2001	1,269.472	105.834	9.10%
A	2002	1,265.713	(3.759)	-0.30%
A	2003	1,246.381	(19.332)	-1.53%
A	2004	1,381.565	135.183	10.85%
A	2005	1,530.949	149.384	10.81%
A	2006	1,708.166	177.217	11.58%
A	2007	1,829.872	121.706	7.12%
A	2008	1,953.540	123.668	6.76%
A	2009	1,807.968	(145.572)	-7.45%
A	2010	1,627.145	(180.823)	-10.00%
F	**2011**	**1,672.133**	**44.988**	**2.76%**
F	**2012**	**1,753.767**	**81.634**	**4.88%**
F	**2013**	**1,825.963**	**72.196**	**4.12%**



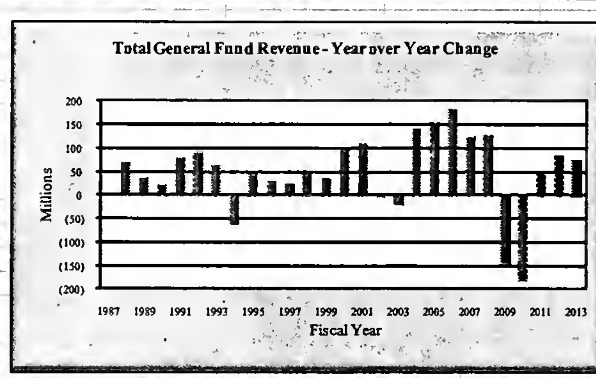


Figure 6 also shows the change in revenue collections from year to year. The disturbing trend is the downturn in revenue collections observed at six to eight year intervals. As shown in the figure, this downturn occurred in FY 2009 and 2010, earlier than the seven to eight year cycle observed historically.

The downturn in revenues during FY 2002/2003 illustrates the sensitivity of Montana's revenue stream to world events and investment opportunities. It also underscores the potential inaccuracies in the revenue estimates if the occurrences of these types of events are not known or are mistimed. Economic upturns or downturns are rarely accurately projected, nor can disasters or certain world developments be anticipated. To quantify current collection patterns, the increased revenue collection from fiscal 2003 to 2008 was primarily due to three general fund revenue sources: individual income, corporation income, and oil and gas production taxes. Together, these three sources of revenue contributed about $568 million of the total increase, which represents over 80 percent of the total. Conversely, the decline in revenue from FY 2008 to FY 2010 was $275.8 million. These three sources contributed over 85% of the total decline. The various assumptions used to estimate these revenue sources will have a substantial impact on total estimated general fund revenues in the future. If only a few of the key assumptions miss the mark, estimates may vary widely from actual collections.

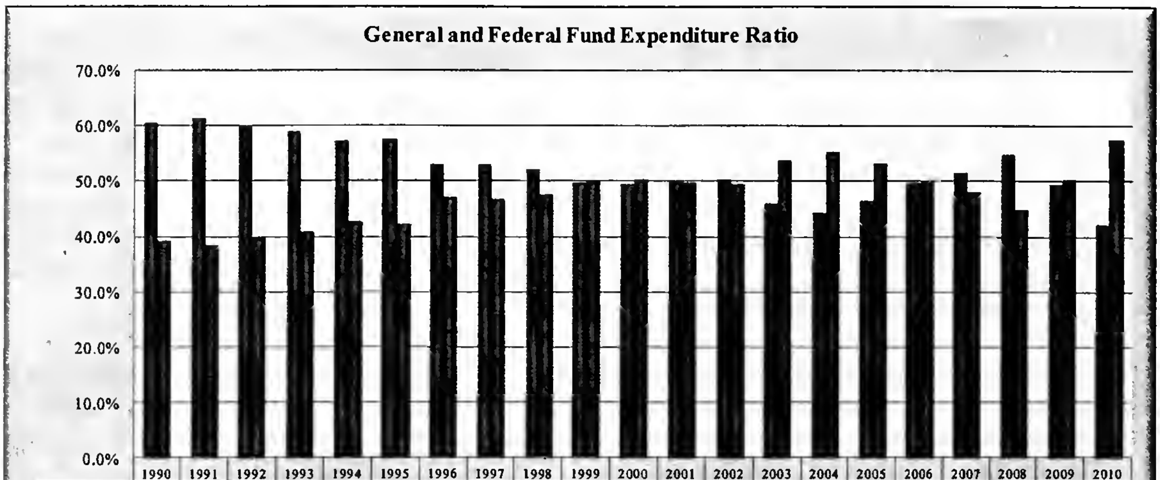
RELIANCE ON FEDERAL FUNDS

General fund expenditures have increased on average about 4.7% per year from fiscal 1990 to 2010. Correspondingly, federal funds expended have increased about 8.6% per year during this same period. In both funds, however, there have been some budgetary changes that skew these percentages. For example, HB124 (local government entitlement legislation) diverted some local government revenues to the state treasury in return for a state general fund entitlement appropriation to local governments. This change increased general fund revenues by approximately the same amount of increased general fund expenditures. During the 2003 biennium, the state food stamp program was included in the budgeting process. Prior to this time, this program was considered "off budget" and was not included as a federal fund expenditure.

Regardless of these changes, the fact remains that federal funds were a smaller portion of the total state budget until about FY 2002. Beginning in FY 2003, this trend was reversed wherein general fund was a smaller portion of the total state budget. Beginning in FY 2007, general fund was once again a larger portion of the total budget. Federal funds were more significant in FY 2010 because of federal stimulus dollars Montana received under the American Recovery and Reinvestment Act.

As shown in Figure 7, general fund expenditures represented over 60% of the combined general and federal fund expenditures in FY 1990. By FY 1999, the percentage split was about equal. By FY 2004, however, federal funds represented over 55% of the combined spending to about 44% from the general fund. Interestingly, the federal funds percentage has dropped to about 45% in FY 2008. Total federal funds expended in FY 2008 were $1.700 billion compared to $2.069 billion general fund, for a difference of $369 million. This shift in percentages was due to the unusually high amounts of one-time only disbursements in FY 2008. If Montana was to lose a portion of these federal funds, the impact on the services provided to the citizens would be significantly reduced. To maintain the same level of services would require a substantial change in state tax policy.

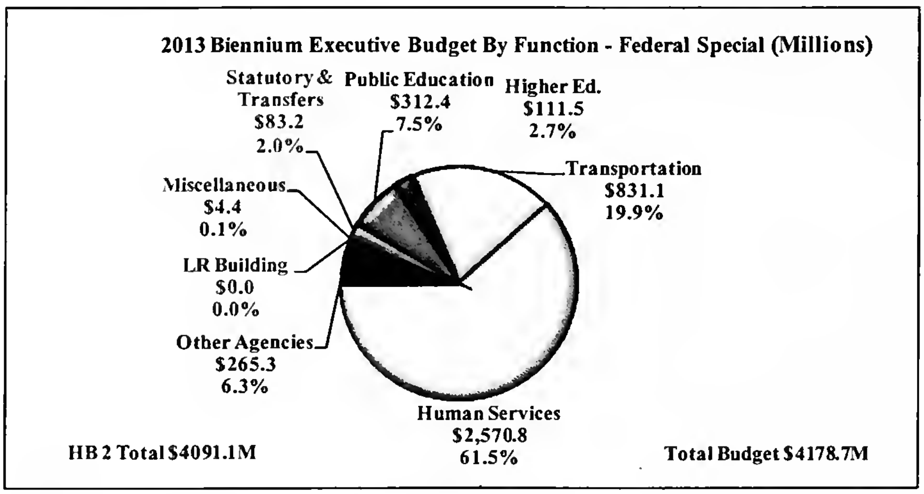
Figure 7



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund	60.7%	61.5%	60.0%	58.9%	57.3%	57.6%	53.0%	53.2%	52.3%	49.8%	49.6%	50.1%	50.4%	46.2%	44.5%	46.7%	49.9%	51.8%	54.9%	49.6%	42.4%
Federal Fund	39.3%	38.5%	40.0%	41.1%	42.7%	42.4%	47.0%	46.8%	47.7%	50.2%	50.4%	49.9%	49.6%	53.8%	55.5%	53.3%	50.1%	48.2%	45.1%	50.4%	57.6%

Figure 8 shows the 2013 biennium executive budget recommendation for federal special revenue funds. As the figure shows, public health and transportation services consume over 81% of the federal funds recommended in the executive budget. A potential reduction in federal funding would have a significant impact to these state functions.

Figure 8



Reliance on Federal Funds - Summary

With huge federal deficits, federal funding freezes or reductions is a real possibility, not only in the near-term but also in the long-term. The current economic crisis has impacted federal revenues and will continue to have substantial impacts well into the future. The

62nd Legislature may want to consider developing a long-range plan in the event of a reduction in federal funds.

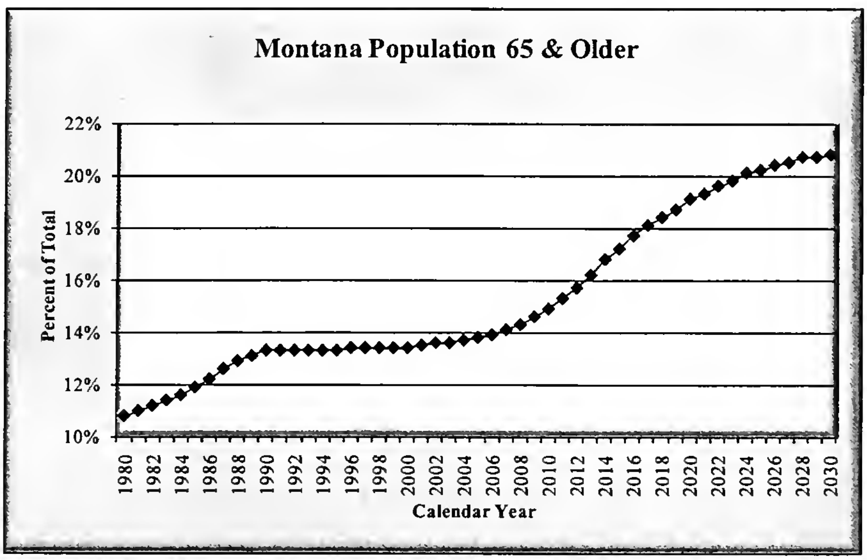
FUNDING DEMANDS

Businesses as well as government constantly experience the changing and competing demands for available dollars. Whether a business is contemplating expansion or technology enhancements, state government experiences the same type of needs and priorities in order to continue services to the citizenry of the state.

Aging Population

One of the most significant events that is beginning to surface in Montana is the projected increase in the aging population. Between 2002 and 2025, Montana's population 65 and older is expected to increase from 13.6% of the total population to 20.2%, or a change in older residents of almost 100,000. As shown in Figure 9, Montana experienced rapid growth in this age cohort from calendar 1980 to 1990.

Figure 9



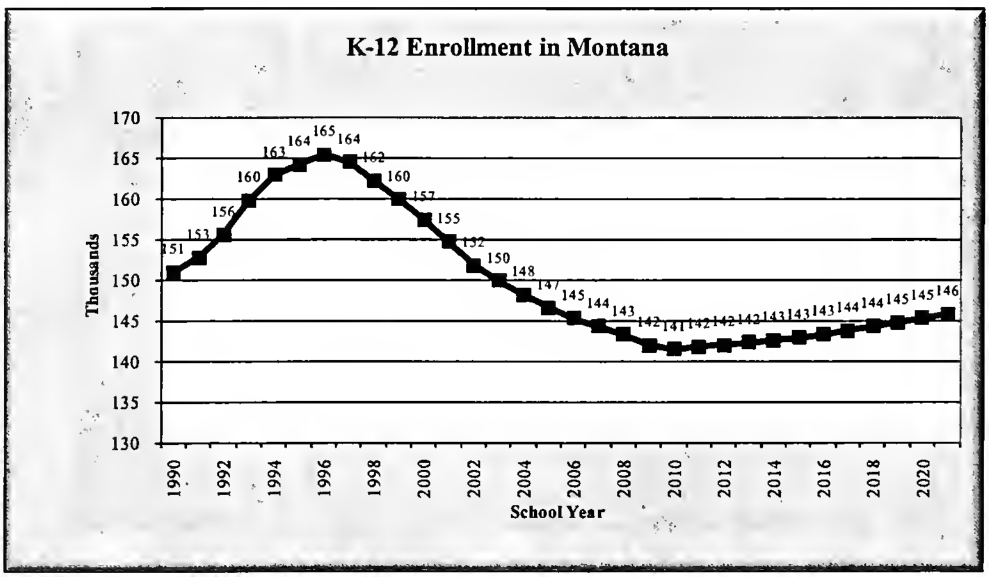
Starting in calendar 1991 and through 2002, this trend waned, with the percentage of residents in this age bracket remaining quite constant. From calendar 2002 to 2025 this trend is once again changing, showing a significant percentage of Montana's total population in the 65 and older age range. If these projections are correct, by calendar 2025, one out of every five Montanan's will be at least 65 years old.

The primary cause of this rising population change is the maturing of the baby-boomer generation, born between 1946 and 1965. Montana, like other state and local governments, will need to address the issues relative to changing demographics. As Montana's population ages, issues relative to an economy that will be required to support these changes and the implications for medical and long-term care costs must be addressed.

With a growing elderly population, the legislature will need to address how the working-age population can support a significantly older population. In addition to the associated costs of caring for the elderly, the level of income these individuals have, and ultimately how much they will pay in taxes could have a substantial impact on state government finances. Given the expected dramatic changes in the age structure of this state's population, these issues and how they may be addressed in the future are imperative.

During the 2007-08 interim, the RTIC and the LFC formed a subcommittee to discuss the fiscal implications of an aging population and other demographics on state revenues and expenditures. Their work resulted in a study proposal which was brought to the legislature via HB 81. This legislation created an interim committee to conduct a study of the potential long-term effects of demographic, economic, social, and other trends in Montana. State and local governmental programs and services, and state and local revenue systems would have been studied. The legislature did not pass this legislation.

Figure 10



School Enrollment

In addition to our aging population, Montana has experienced a significant change in enrollment in our elementary and secondary public schools. As shown in Figure 10, Montana's total enrollment was in excess of 165,000 children in school year 1996. From this time forward, total enrollment declined to about 141,000 students by school year 2010. Beyond 2010 enrollment is estimated to increase, but at a fairly moderate rate. The significance of this change is the costs associated with funding the current public school system. Under current law, state expenditures for public schools are primarily driven by the enrollment in each district. If enrollment declines, then the cost to fund education correspondingly declines.

If the current public school funding formula continues to be enrollment driven, the cost of funding the public school system will begin to accelerate when the current enrollment trends reverse direction beginning in school year 2014. At an average cost of about $3,900 per enrollee per year, small changes in enrollment can turn into significant funding increases in the future.

Funding Demands - Summary

Changes in population demographics related to an aging population and a reversal of the decline in school enrollments are just two examples of funding demands. The chronic demands for increased human services, corrections and pension funding are well known, and there are other troubling signs that funding demands could exacerbate the long-term stability of the general fund.

Conclusions

Ensuring that the general fund is structurally balanced, i.e., that on-going revenues meet or exceed on-going expenditures for the next biennium, provides a simplistic short-term assessment of sustainability of the general fund. However, it does not take into consideration the long-term stability of the funds or whether long-term trend assumptions are based on sound fiscal policies. This section discussed three key issues related to long-term stability that may point to tougher times ahead. With regard to revenue stability, individual income taxes, oil and gas production taxes, and corporate income taxes accounted for 84% of revenue decline in the past two fiscal years. Further reliance on these revenues into the future should warrant careful scrutiny and long-term planning. Regarding funding demands, shifting demographics related to aging population and school enrollment, as well as challenging chronic growth patterns with corrections and human services, signal yet another reason for concern with long range stability of the general fund. Collectively, these sample issues bring into question the sustainability of an executive budget proposal that is "structurally imbalanced" from a simplistic short-term perspective, which may lead to further budget shortfalls in the not-too-distant future.

LFD ISSUE

While revenue estimates and spending proposals in the executive budget may be based on the best information available, particularly with regard to future sustainability, if only a few key assumptions miss the mark, it could lead to further budget shortfalls in the long-term. The legislature should carefully consider the issues surrounding the sustainability of the proposed executive budget, and determine the level of risk that is acceptable in consideration of the vulnerability of any economic forecasting assumptions. For the longer-term, an in-depth analysis of the long-term stability of the general fund would require a fairly extensive analysis, but may be prudent given the serious impacts of over-extending based on erroneous assumptions.

The legislature may wish to consider an interim study bill that would study the long-term stability of the general fund. Much could be learned from examining the fiscal policies on which the current general fund structure is based.

Based on this outlook, it could be argued that a significant amount of additional revenue received during the period FY 2004 through FY 2008 should have been considered "one-time" and should not have been expended for on-going programs. If this hypothesis is correct, the 62nd Legislature should consider creating a "rainy day fund" that is designed to capture additional revenue above a defined cap. Given the tenuous nature of some assumptions regarding the long-term sustainability of general fund, a rainy-day fund would provide a cushion to get through the down-side of economic cycles.

PENSION PLANS UNFUNDED LIABILITY

Does the legislature need to take action in the 2011 session?

One of the key fiscal issues in front of the legislature over the past four biennia has been the unfunded actuarial liability (UAL) of the state pension plans. In two different sessions (the December 2005 special session and the 2007 special session) the legislature approved cash contributions totaling $175 million to reduce unfunded liabilities and shore up plan assets that had been impacted by reduced equity market values and a downturn in investment earnings generally. In FY 2007, the equity markets regained value and at the end of June 2007, all of the pension plans were actuarially sound as defined in state statute (discussed below). At the end of FY 2008, the equity markets dropped in value in the last month of the year, all but one of the plans still met the criteria of being actuarially sound. Only the Teachers' Retirement System was determined to be actuarial unsound. In FY 2009, the bottom fell out of the equity markets and pension asset values tumbled, showing losses of about 22%. As of the year ended June 30, 2009 and again as of June 30, 2010, four of the nine pension plans had "negative" actuarial valuation reports. About half of the loss in asset value has not yet been recognized in determining the unfunded actuarial liability. Similarly, only about one-quarter of the gains of FY 2010 have been recognized.

Does the legislature need to take action in the 2011 session? If no action is taken or if there is not a continued and dramatic recovery of the equity markets, future legislatures will be faced with significant issues concerning the long-term health of the retirement systems. These fiscal issues are a part of the entire budget debate because the fiscal health of the retirement system is an important component of state and local government fiscal stability.

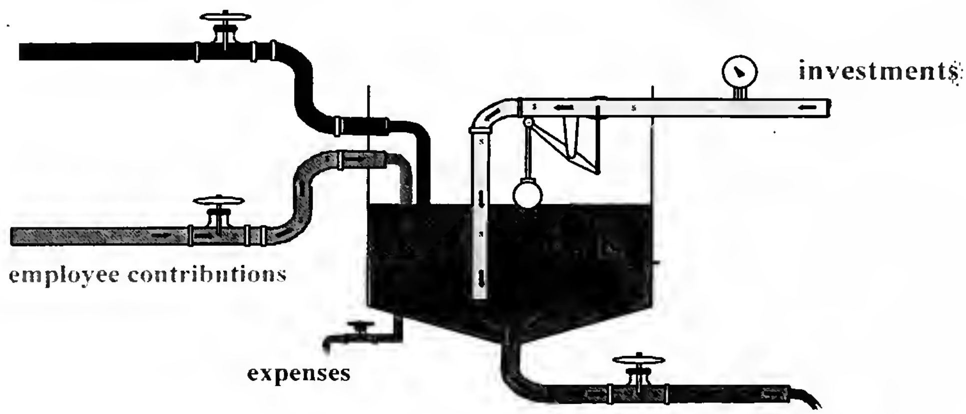
There are three parts to this discussion. The first focuses on the actuarial valuations of each plan as the tool that reports whether or not a retirement plan is actuarially sound. This is an important discussion because of its relevance to a constitutional requirement. The second part focuses on the "annual required contribution" (ARC) of the pension plans, which are an indication of the long-term health of the pension plans. The third part discusses other risks to consider. The fourth part discusses the legislation that is anticipated for the 2011 Session.

BACKGROUND

This section discusses some key concepts concerning pension systems.

How Pension Systems Work

The following is a simple schematic of a pension system. Employer and employee contributions and investment earnings flow in, and retirement benefits and administrative expenses flow out.



What this schematic does not show is that fluctuations in the equity markets can cause the asset values to increase or decrease. In other words, the investments pipe can flow both ways, depending on the markets. For the most part, the employer and employee contributions are a percentage of employee payroll. However, as mentioned earlier, on a couple of occasions, the legislature approved a direct cash infusion to shore up pension assets. The workings of this simple schematic become more complex when discussions turn to actuarial valuations.

Actuarial Valuation

An actuarial valuation is an analysis of the expected liabilities or retirement payments that will be owed in the future compared to the value of funds (assets) held by the fund and expected contributions and investment earnings into the future.

Actuarial Value of Assets

The actuarial value of assets differs from market value in one way. Actuarial value includes a technique of "smoothing" that spreads gains and losses of the pension plans investments over a 4-year period rather than recognizing a gain or loss in the year it occurs. Market value is the amount of money that could be acquired if the asset were exchanged on the open market. The smoothing method simply attempts to account for fluctuation in the investment market.

Actuarial Liability

The actuarial liability of a pension plan is the amount that is projected to be needed to pay obligations in the future. It can be likened to a mortgage amount, although unlike a mortgage, the pension liability is determined annually (by the actuarial valuation) based upon what is currently known about the pension fund and what is assumed for the future. Theoretically, like a mortgage, the amount owed for future benefits should be paid for in a specified time by the contributions and investment earnings that are collected or expected to be collected. If the actuarial liabilities exceed the actuarial value of assets of the pension fund, then there is an **unfunded actuarial liability**. In other words, unfunded actuarial liability is the present value of benefits earned to date not covered by the current plan

assets, or in the mortgage analogy, the mortgage cannot be paid off with the current level of payment.

Actuarially Sound

Article VIII of the State Constitution states that "public retirement systems shall be funded on an actuarially sound basis." State law defines actuarial soundness by stating that the "unfunded liability contribution rate...must be calculated as the level percentage of current and future defined benefit plan members' salaries that will amortize the unfunded actuarial liabilities of the retirement plan over a reasonable period of time, not to exceed 30 years, as determined by the board." In other words, the contribution rate for a particular plan must exceed the level needed to cover the normal costs of benefits and administration for the retirees and be sufficient, when amortized, to cover the unfunded liability within 30 years (i.e., pay off like a mortgage over 30 years).

Most Recent Actuarial Valuations

An actuarial valuation, by statute, is required annually for each plan. The valuations are prepared after the end of the fiscal year and are available to the respective retirement boards around October 1 of each year. The following figure summarizes key points of actuarial valuations for the year ending June 30, 2010 and 2009. The four plans that are shaded are those pension plans that were the focus of attention over most of the past decade as they were considered "actuarially unsound" much of that time.

The key item to focus on in the FY 2010 data is the "Years to Amortize Unfunded Liability." This is an important indicator because the definition of "actuarial soundness" is tied to the pension plan ability to pay down its unfunded liability within a 30 year period. As the following figure shows, the four pension plans exceed the 30-year amortization.

There are two points that need to be noted. First is that this data does not include all of the losses that occurred in FY 2009 or all of the gains that occurred in FY 2010. The valuation process applies a technique called "smoothing" that spreads gains and losses out over a period of time. Therefore, losses that occurred in FY 2009 are not totally realized in this current valuation, but rather are spread out over a four-year period. Second, actuarial valuations are snapshots as of June 30. The current valuation does not take into account the impact of economic events since June 30, 2010, where retirement investments have experienced some recovery.

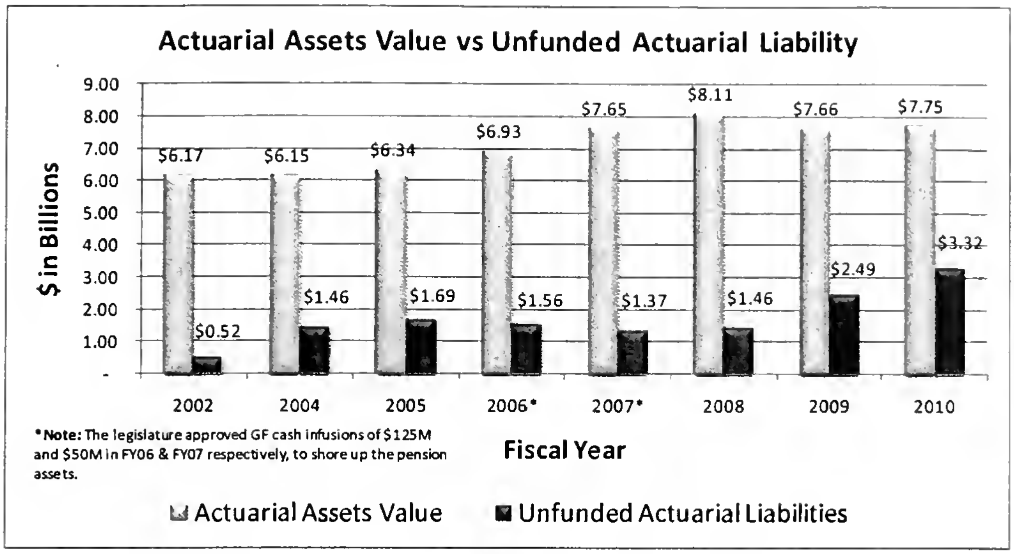
Pension Plan Unfunded Actuarial Liability 2010 Actuarial Valuation versus 2009 Actuarial Valuation (Dollars in Millions)									
	TRS	PERS-DB	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
2010 Valuation (as of 6/30/2010)									
Actuarial Accrued Liability (AAL)	$4,518.2	$5,241.8	$246.7	$113.9	$151.2	$380.4	$335.5	$42.5	$34.5
Actuarial Value of Assets (AVA)	2,956.6	3,889.9	200.7	85.2	97.2	217.5	213.8	61.3	26.6
Unfunded Actuarial Liability/(Surplus)	$1,561.6	$1,351.9	$46.0	$28.7	$54.0	$162.8	$121.7	($18.8)	$7.9
Funded Ratio (AVA/AAL)	65.4%	74.2%	81.4%	74.8%	64.3%	57.2%	63.7%	144.1%	77.0%
Years to Amortize Unfunded Liability	49.5 yrs	Does not amortize	Does not amortize	Does not amortize	26.3 yrs	19.9 yrs	13.8 yrs	0 yrs	n/a
	TRS	PERS-DB	SRS	GWPORS	HPORS	MPORS	FURS	JRS	VFCA
2009 Valuation (as of 6/30/2009)									
Actuarial Accrued Liability (AAL)	$4,173.8	$4,792.8	$223.9	$92.2	$137.8	$345.3	$306.2	$41.8	$33.5
Actuarial Value of Assets (AVA)	2,762.2	4,002.2	200.7	81.2	99.6	214.3	209.8	61.9	27.2
Unfunded Actuarial Liability/(Surplus)	$1,411.6	$790.6	$23.2	$11.0	$38.2	$131.0	$96.4	($20.1)	$6.3
Funded Ratio (AVA/AAL)	66.2%	83.5%	89.6%	88.1%	72.3%	62.1%	68.5%	147.9%	81.2%
Years to Amortize Unfunded Liability	Does not amortize	Does not amortize	Does not amortize	Does not amortize	21.5 yrs	22.1 yrs	12.7 yrs	0 yrs	6.9 yrs

Key
TRS - Teachers' Retirement System
PERS-DB - Public Employees' Retirement System - Defined Benefits
SRS - Sheriffs' Retirement System
GWPORS - Game Wardens and Peace Officers' Retirement System
HPORS - Highway Patrol Officers' Retirement System
MPORS - Municipal Police Officers' Retirement System
FURS - Firefighters' Unified Reirement System
JRS - Judges' Retirement System
VFCA - Volunteer Firefighters' Compensation Act

The next scheduled valuations will occur after June 30, 2011 and will not be available until around October 1. How the equity markets and other investments perform before the end of FY 2011 is unknown, but it is how they perform that will determine the relative soundness or unsoundness of the retirement plans in the next valuation, assuming that the actuarial assumptions remain relatively unchanged. The assumptions used in the valuation are subject to review, and in fact, some changes occurred prior to the 2010 valuation.

Total Unfunded Actuarial Liability

The net unfunded liability of the nine defined benefit pension plans collectively increased from $2.5 billion in 2009 to $3.3 billion in 2010. The collective funded ratio, which was about 75.5%, dropped to 70% percent. A look at the unfunded actuarial liability for the past decade adds more significance to the magnitude of these numbers. As the chart below shows, the unfunded liability has increased six-fold since FY 2002 while the actuarial assets increased 25%.



There are two primary reasons for the increase in the UAL in the 2010 valuation: 1) For all nine pension plans, they are in the second year of the 4-year smoothing cycle for the losses that occurred in FY 2009 investment returns. The downturn was so significant that even with "smoothing," the impact in each valuation is dramatic. 2) For the eight plans under the Public Employees Retirement Board, the assumption for investment returns for the FY 2010 actuarial valuation was reduced from 8 percent to 7.75 percent. The seemingly small change, when applied to pension plan values and spread over the 30-year amortization period, also has a dramatic impact.

ANNUAL REQUIRED CONTRIBUTION

However, the above does not tell the whole story. The actuaries also provide estimates of what the "annual required contribution (ARC)" should be to ensure that the actuarial unfunded liability can be amortized within the 30-year threshold. The ARC is a determination based upon the assumptions that are used in the actuarial valuation. Accounting standards require its calculation but it is not typically used to determine funding. It does, however, provide a link between the valuation statement that "the unfunded liabilities of a given plan does not amortized in 30 years" and the obvious question of "what will it take to get there?" While a contribution increase is not the only answer, calculating the cost of the ARC does place a value on the problem.

The following figure shows the difference between the statutory employer contribution rate and the estimated ARC. The difference or shortage would translate to the increase in contributions needed to ensure that the unfunded liabilities of the pension plans can be amortized within 30 years.

When the ARC rate is applied to the projected wage data of state and local government employees and teachers for the FY 2012 and FY 2013, the estimated state general fund impact is $31 million for FY 2012 and $37 million for FY 2013.

Pension Plan Unfunded Liabilities Annual Required Contribution (ARC) ARC Rate versus Current Statutory Rate					
Fiscal Year	TRS	PERS	SRS	GWPORS	HPORS
Statutory Employer Rates					
2012	9.96%	7.17%	10.12%	9.00%	36.33%
2013	9.96%	7.17%	10.12%	9.00%	36.33%
2014	9.96%	7.17%	10.12%	9.00%	36.33%
2015	9.96%	7.17%	10.12%	9.00%	36.33%
Annual Required Contributions (ARC) Rate to Attain 30-Year Amortization					
2012	12.16%	15.33%	17.07%	13.90%	41.37%
2013	14.18%	15.39%	17.07%	13.87%	40.79%
2014	15.13%	15.61%	17.23%	13.92%	40.54%
2015	15.13%	15.84%	17.39%	13.99%	40.28%
Rate Shortage					
2012	2.20%	8.16%	6.95%	4.90%	5.04%
2013	4.22%	8.22%	6.95%	4.87%	4.46%
2014	5.17%	8.44%	7.11%	4.92%	4.21%
2015	5.17%	8.67%	7.27%	4.99%	3.95%

Data Source: June 30, 2010 actuarial valuations - for TRS 2014-15, LFD analysis uses the ARC determined for FYE 2012 from market value as proxy for unavailable data.

This calculation also includes a potential adjustment to the contribution rates of the university system's Optional Retirement Plan, specifically the portion that the employer must pay to TRS to pay down unfunded liabilities (future costs) resulting from TRS members being in the ORP plan rather that the TRS plan. A recent study suggests that 3.82% be added to the current supplemental rate of 4.72%.

What the Data Shows

Using the estimated ARC rates discussed above, the total impact is $296 million for the 2013 biennium, including impact on the state general fund, other state funds (state special, federal, etc.), local governments, and schools.

The figure below shows the potential impact for the next two biennia.

Potential Pension Cost Increases FY 2012 - FY 2015 (Dollars in Millions)				
	FY 2012	FY 2013	FY 2014	FY 2015
State Costs				
General Fund	$ 31	$ 37	$ 41	$ 44
Other Funds	48	53	58	62
Local Schools	18	29	36	37
Local Government	39	40	43	46
	$ 136	$ 160	$ 178	$ 189

The analysis assumes that local governments and schools would be responsible for their costs except where the guaranteed tax base (GTB) comes into play. GTB costs are shown in the figure as part of the state general fund costs. In addition, the general fund estimated costs include estimates of the portion of university system current unrestricted funds that would come from the general fund. It also includes a portion of the proprietary funds that translate to general funds when agencies are billed for internal service fund services such as information technology services. The estimated cost to the general fund in the 2013 biennium is $68 million. The cost to other state funds would be $101 million.

Local Schools

Each county has high school and elementary county retirement accounts for employees employed by school districts. These accounts collect revenue to pay for the employer

contributions to the TRS and PERS on behalf of school employees. It also collects revenue to pay for the Social Security, Medicare and unemployment insurance on behalf of school district employees. Each school district reports its retirement, Social Security, Medicare and unemployment insurance requirements to the county superintendent. The county superintendent sums these requirements for districts within the county. The state by law pays a portion of the contribution and the counties pay the remainder. For instance, for TRS, the state contributions into TRS for FY 2010 and FY 2011 are 2.38% of wages plus 0.11% of wages for a total of 2.49%[4]. The counties pay 7.47% of wages. The figure shows that the cost to schools overall would be $47 million for the 2013 biennium and $73 million in the 2015 biennium.

The county has three main sources of revenue to pay for the increased retirement costs: Non-levy revenue (such as oil and gas revenue, coal gross proceeds, interest earnings), property taxes, and, if eligible, state GTB payments. A county is eligible for state GTB payments if its taxable value per pupil is below 121% of the statewide average taxable value per pupil. Once a county has received the revenue to pay for the required contributions for the school districts within its boundary, it sends the revenue to each school district that then pays the contributions, as well as social security, Medicare and unemployment insurance. If local contribution rates increase and the state does not increase its share, then the retirement revenue requirements for counties will also increase. Some counties may have enough revenue from non-levy sources so that property taxes and state GTB will not increase. In the absence of sufficient non-levy revenue or an increased state supplemental contribution as discussed above, when local contribution rates increase, a county must raise the additional local revenue through property taxes and GTB.

Local Government

MCA 15-10-420 limits the increase from year to year of a local government's revenue from property taxes to one-half the rate of inflation averaged over the prior three years without a vote. This applies to county governments and city governments, but not to school districts, and the county retirement account discussed above is considered to be exempt from 15-10-420, MCA.

The result from applying the potential ARC rates as future contribution rates to local government jurisdictions are shown in the figure above for FY 2012 through FY 2015. The analysis shows the cost to local government would be $79 million for the 2013 biennium, which might result in property tax increases if room exists under the limit, or the reduction of current service levels in order for counties or municipalities to cover the increased costs. The estimated $79 million is about 3% of total county and municipality 2-year spending statewide. For the 2015 biennium, the estimated cost of $89 million would also fall into the 3% to 3.5% range.

[4] The contributions by the state are transferred from the state general fund to the Teachers' Retirement Fund in a statutory appropriation (19-20-607, MCA). The 2.38% state supplemental rate was added by HB 63 of the 2007 session to address the unfunded liability and the 0.11% was added in HB 72 of the 1999 session to fund the guaranteed annual benefit amount (GABA) of 1.5% for TRS. There is a similar state contribution by statutory appropriation to the Public Employees Retirement fund on behalf of local government and schools (19-3-319, MCA) to address the unfunded liability (HB 131 of 2007 session).

FURTHER RISKS

There are other considerations to keep in mind regarding pension plans:

- The analysis discussed above is based upon the pension plan actuarial valuations as of June 30, 2010. Although the equity markets have made big gains over the past two years, they continue to experience volatility. In addition, there are still two more years in which the losses of FY 2009 will be recognized. What the next valuations will show at the end of the current fiscal year is unknown. Without strong investment returns and/or some other action, the expectation is that at least four pension plans will still not be actuarially sound.
- In the Teachers' Retirement System 2010 Actuarial Valuation, the plans actuary shows that without some corrective action, projections cash flow will trend downward beginning in FY 2012, turning into a negative cash flow around FY 2021 or FY 2022. A negative cash flow means that payments out of the pension fund would exceed the contributions and investment income coming into the fund. The same is likely for the Public Employees' Retirement System (but the analysis is not available). If cash flow goes negative and stays negative, it is just a matter of time before the fund runs out of money.
- The fiscal health of public pension plans is looked at by bond rating agencies. If the state does not have a viable action plan for fixing an underfunded pension plan, bond ratings may suffer.

IS LEGISLATIVE ACTION NEEDED?

By definition and based upon the most recent actuarial valuation, four of the public pension funds are not actuarial sound. In addition, the actuarial soundness of these plans are based upon assumptions that measure the long-term trends of various factors, with investment returns certainly being a key one. When the legislature convenes in January, there will still be six months remaining in FY 2011 and the session will end 5-months prior to the availability of the FY 2011 valuation. Historic economic cycles and the logic of actuarial valuations would suggest that time might resolve the pension plan unfunded liabilities to the degree needed for actuarial soundness, but the downturn of the equity markets in FY 2009 were unprecedented in recent history. Even the retirement boards have a policy that provides that after two consecutive "negative" valuation reports, the boards are obligated to pursue legislative remedies. The question then becomes: How long might a recovery take? The answer to that question will not likely be evident in the near future. In fact, economic experts are forecasting a slow recovery. To whatever extent the economy recovers, it may not be enough to add needed stability to the pension plans.

The retirement boards have a policy that provides that after two consecutive "negative" valuation reports, the boards are obligated to pursue legislative remedies. In addition, 2011 Legislature can expect to see recommendations from the State Administration and Veterans' Affairs Interim Committee (SAVA), the retirement boards, various stakeholders, and others intended to enhance and stabilize the respective plans. The proposals will vary. Many are directed at new hires, some would raise employer contribution rates for the plans and change benefit calculations, and the SAVA committee is proposing two plans for newly hired teachers that reduce the state's funding risks, and there are a couple of "housekeeping" bills. There appear to be many bills in the works to address pension plan

issues. Many have little to offer the issue of unfunded liability but can offer some long-term solutions to those issues. A few might have the potential to reduce the unfunded liability but may see court challenges if enacted.

TRANSFERS TO THE GENERAL FUND FROM OTHER FUNDS

There are several proposals in the executive budget to transfer moneys to the general fund as part of the solution to solve budget gap. These transfers total $95.2 million for the general fund. The following provides information regarding the impacts of the transfers:

HB 5 – LONG-RANGE PLANNING PROGRAM

The Governor recommends the reduction or elimination of certain Long-Range Building Program (LRBP) projects and the transfer of $11.7 million of LRBP capital project funds to the general fund. The planned LRBP project reductions/eliminations include:

- The Receiving Hospital Renovation at MT State Hospital ($4.5 million)
- The Expansion of Food Services at Montana State Prison ($1.2 million)
- the New Building for Youth Transition Center, Great Falls ($1.3 million)
- A new Office of Public Assistance, Wolf Point ($2.2 million)
- Statewide Facilities Planning ($0.4 million)
- Infrastructure Repairs at the State Capitol, Helena ($0.5 million)
- Auto Tech Center Design at MSU-Northern ($0.6 million)
- LRBP Additional Capital Project Fund transfer, without accompanying project reduction ($1.0 million)

For more information on the transfer of funds see Vol. 7, page F-8 of the Legislative Budget Analysis.

HB 10 – LONG-RANG INFORMATION TECHNOLOGY PROJECTS

The Governor recommends the reduction or elimination of certain Long-Range Information Technology Program (LRITP) projects. The planned LRITP project reductions and transfers to the general fund amount to $10.7 million and include:

- The Montana Automated Child Welfare Information System (MACWIS) (Child and Adult Protective Services, CAPS) Project ($10.3 million)
- The Judicial Branch Information Technology Project ($0.3 million)
- The Efficiency through Imaging, Department of Revenue (DOR) ($0.1 million).

For more information on the transfer of funds see Vol. 7, page F-16 of the Legislative Budget Analysis.

HB 11 – TSEP AND REGIONAL WATER TRANSFER

The executive proposes two transfers from the Treasure State Endowment Programs (TSEP) to the general fund in HB 11. The first proposed transfer is from the TSEP interest earnings from the local government water infrastructure grant program state special

revenue fund ($17.6 million). If the legislature agrees with this transfer, there will not be any funds available for TSEP local government infrastructure grants in the 2013 biennium. The second transfer, $4.8 million, is from the TSEP regional water program. These funds are used to match federal dollars for large regional water projects. If the legislature agrees with this transfer, there will not be any state funds available for projects in the 2013 biennium. For more information on the transfer of funds see Volume 7, pages F-19 through F-25 of the Legislative Budget Analysis.

Big Sky Economic Development

Interest from coal tax revenue deposited to the Big Sky Economic Development Fund is transferred to a state special revenue account. Money in the account is statutorily appropriated to the Department of Commerce for administration with the 75% distributed to local governments and tribal governments to be used for job creation effort, and 25% distributed to certified regional development corporations, economic development organizations that are located in a county that is not part of a certified regional development corporation, and tribal governments.

In HB 140, the executive proposes to divert $2.89 million of earnings in the 2013 biennium and deposit the money in the general fund. Because of the diversion, the amount of funds available to local and tribal governments and regional development corporations will be reduced by 50% for two years.

Fire suppression Fund Transfer

The Governor is proposing to transfer $20.0 million from the fire suppression fund to the general fund to assist with the current general fund shortage. However, this transfer does not come without risk to the state. This is discussed in more detail in this section under the heading for Fire Suppression Funding on page 105.

School Facility

The executive budget includes two proposals decreasing funds that are set aside for school facility upgrades through the Quality School Facilities Grant Program (QSFP). The reductions of funds will indirectly impact the general fund, as increased funds will be available for school funding through the state guarantee account.

The first proposal would delay the start of the flow of the streambed rents for a biennium. Under current law, the flow of revenue is set to begin January 1, 2012 and is expected to bring $8.6 million in revenue to the QSFP fund during the 2013 biennium. The proposal would allow the funds to flow into the state guarantee account for the 2013 biennium. While the LFD anticipates the biennial reduction of QSFP funds at $8.6 million, the "transfer" is shown on the executive balance sheet at $10.0 million per year. The reason for the difference between the two offices is that the executive has included an amount in anticipation of the state winning the lawsuit with Pennsylvania Power and Lighting (PPL). In the suit, PPL is arguing against the state's right to charge rent against the sections of streambed that the company occupies. As the matter is still in litigation, there is a possibility that these funds may not materialize. If the company is successful, the

state will not receive rents from PPL and the projected $8.6 million, which is currently paid by other utility firms, could also be in jeopardy. If the funds do not materialize, the general fund will be required to support the K-12 education at a higher level.

The second proposal is a funding switch of the debt service currently paid from the state guarantee account to the QSFP fund. This funding switch is expected to equal $17.2 million in the 2013 biennium. For more information on the transfer of funds see Vol. 7, pages F-47 of the Legislative Budget Analysis.

Health Care and Benefits Division Transfer

The executive budget includes a $0.1 million transfer to the general fund from the workers' compensation agency assistance state special revenue account. The Workers' Compensation Management Program (Department of Administration) negotiated a retention return clause in state policies that requires reimbursements from the State Fund if workers' compensation losses are lower than premiums paid by state agencies. The second year this contract provision was in force, the state received $1.6 in retention return funds and the Workers' Compensation Management Program received an appropriation in HB 2 for $500,000 of the refund. The program used funds to help jump start agency work safety programs and to purchase ergonomic equipment to prevent workplace injuries. The executive budget transfers excess funds from the account to the general fund.

Natural Resource Damage Program Transfer

Included in the executive budget is a transfer of $1.3 million from the natural resources damage (NRD) program funds obtained through the ARCO settlement to the general fund. This transfer is to repay the general fund for start up costs that were provided to the NRD program. The consent decree allowed for state costs of litigation to be reimbursed.

Coal Bed Methane Acct

The executive is proposing a one-time transfer of $6.0 million from the coal bed methane (CBM) fund to the general fund. The CBM fund was established to provide compensation to landowners and water right holders for damages attributable to coal bed methane development. This transfer along with the executive budget request will decrease the fund balance to approximately $3.0 million for the 2013 biennium. The risk of the transfer is that if a large number of claims for damages is filed, the state will not have sufficient funds to cover the payments. The $3.0 million would cover approximately 60 claims at the $50,000 per claim limit. In FY 2010, there were no claims submitted for payment.

PRESENT LAW ANALYSIS

Figure 1

2013 Biennium Present Law Budget - General Fund Figures in Millions	Actual FY2010	Estimated FY2011	Estimated FY2012	Estimated FY2013	2011 Biennium	2013 Biennium	Biennial $ Change
Beginning Fund Balance	$396.334	$314.880	$183.263	$31.829	$396.334	$183.263	($213.071)
Revenue							
RTIC Revenue Estimate	1,627.145	1,672.133	1,753.767	1,825.963	3,299.277	3,579.731	280.453
Total Funds Available	$2,023.478	$1,987.013	$1,937.030	$1,857.792	$3,695.611	$3,762.993	$67.383
Disbursements							
General Appropriations - HB2	1,575.921	1,533.314	1,701.756	1,704.751	3,109.235	3,406.507	297.272
Statutory Appropriations	169.872	180.683	189.618	197.180	350.555	386.798	36.243
Transfers	88.877	49.144	16.741	12.426	138.021	29.167	(108.854)
Other Appropriations	-	139.737	-	-	139.737	-	(139.737)
Supplementals	-	2.851	-	-	2.851	-	(2.851)
Feed Bill	-	9.818	2.469	10.009	9.818	12.478	2.660
Reversions	(117.960)	(112.263)	(5.383)	(6.686)	(230.223)	(12.069)	218.154
Total Disbursements	$1,716.710	$1,803.284	$1,905.201	$1,917.680	$3,519.994	$3,822.881	$302.887
Fund Balance Adjustments	8.112	(0.466)	-	-	7.646	-	(7.646)
Ending Fund Balance	$314.880	$183.263	$31.829	($59.888)	$183.263	($59.888)	($243.150)
Structural Balance Calculation			($151.434)	($91.717)			
Fiscal Policies Required to Achieve $100 Million Balance				($159.888)			

Figure 1 shows the projected general fund present law balance for the 2013 biennium. Amounts shown include the revenue estimates as adopted by RTIC on November 19, 2010, and the cost of operating state government based on "present law" requirements. These disbursement amounts are as proposed in the executive budget. The present law amounts shown for both anticipated revenues and expenditures do not include any new proposals or initiatives recommended by the executive. As Figure 1 shows, the 2013 biennium ending general fund balance is projected to be a negative $60.0 million before any new proposals or initiatives are considered. This balance indicates the state cannot maintain the existing present law services without a reduction in services or revenue enhancements.

Figure 2

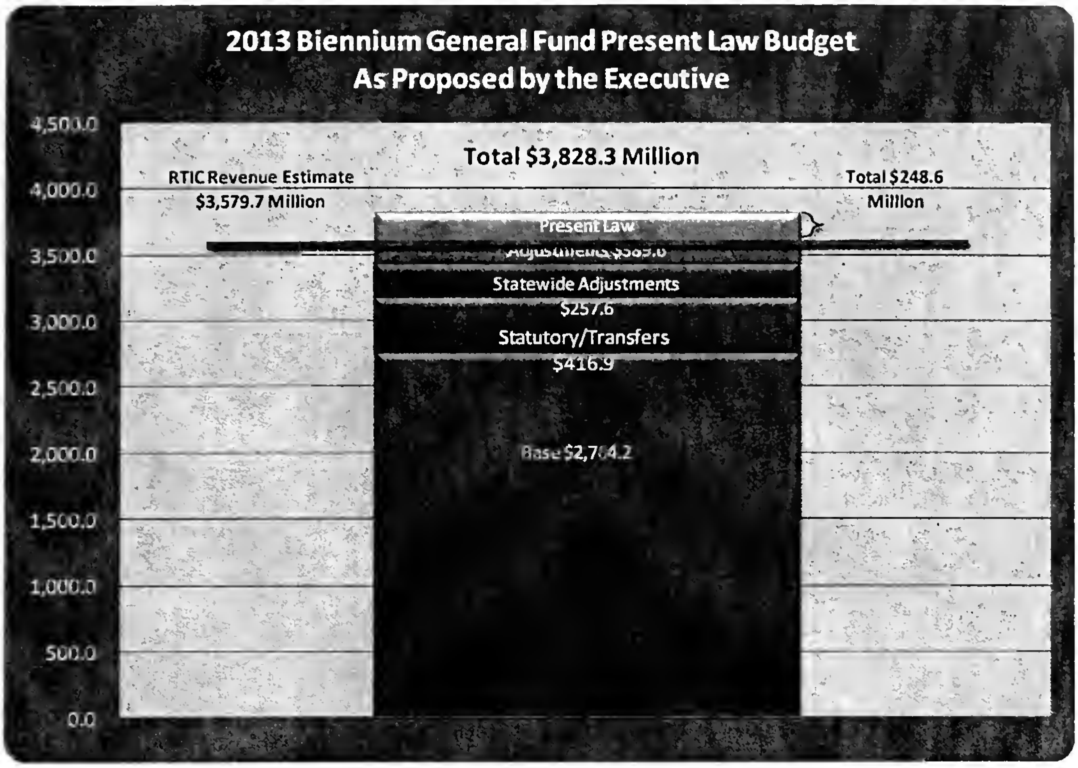
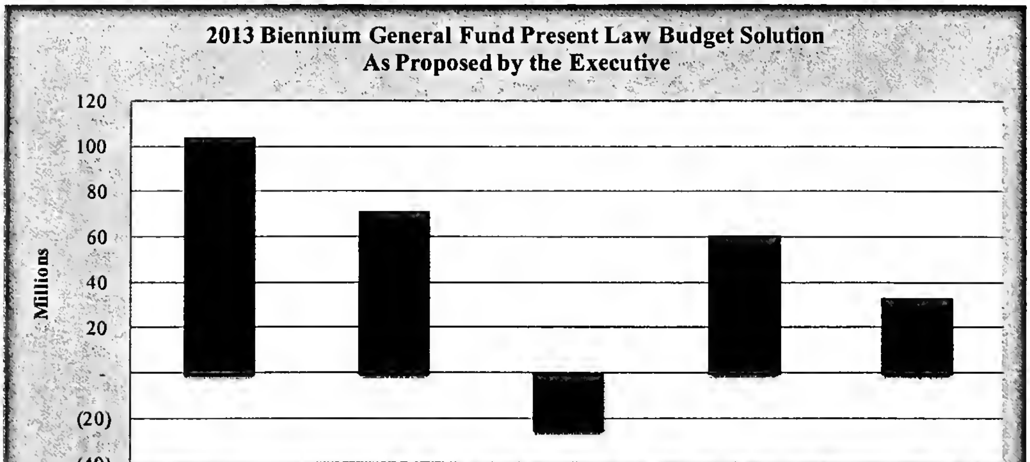


Figure 2 shows the projected general fund gap between RTIC anticipated revenues versus the present law expenditure costs. As shown in the figure, the budgetary gap between anticipated revenues and present law costs is $243.2 million. The amount does not include any of the recommended solutions of the executive nor does it include the "current service level" or pension funding issues. See discussion in the overview.

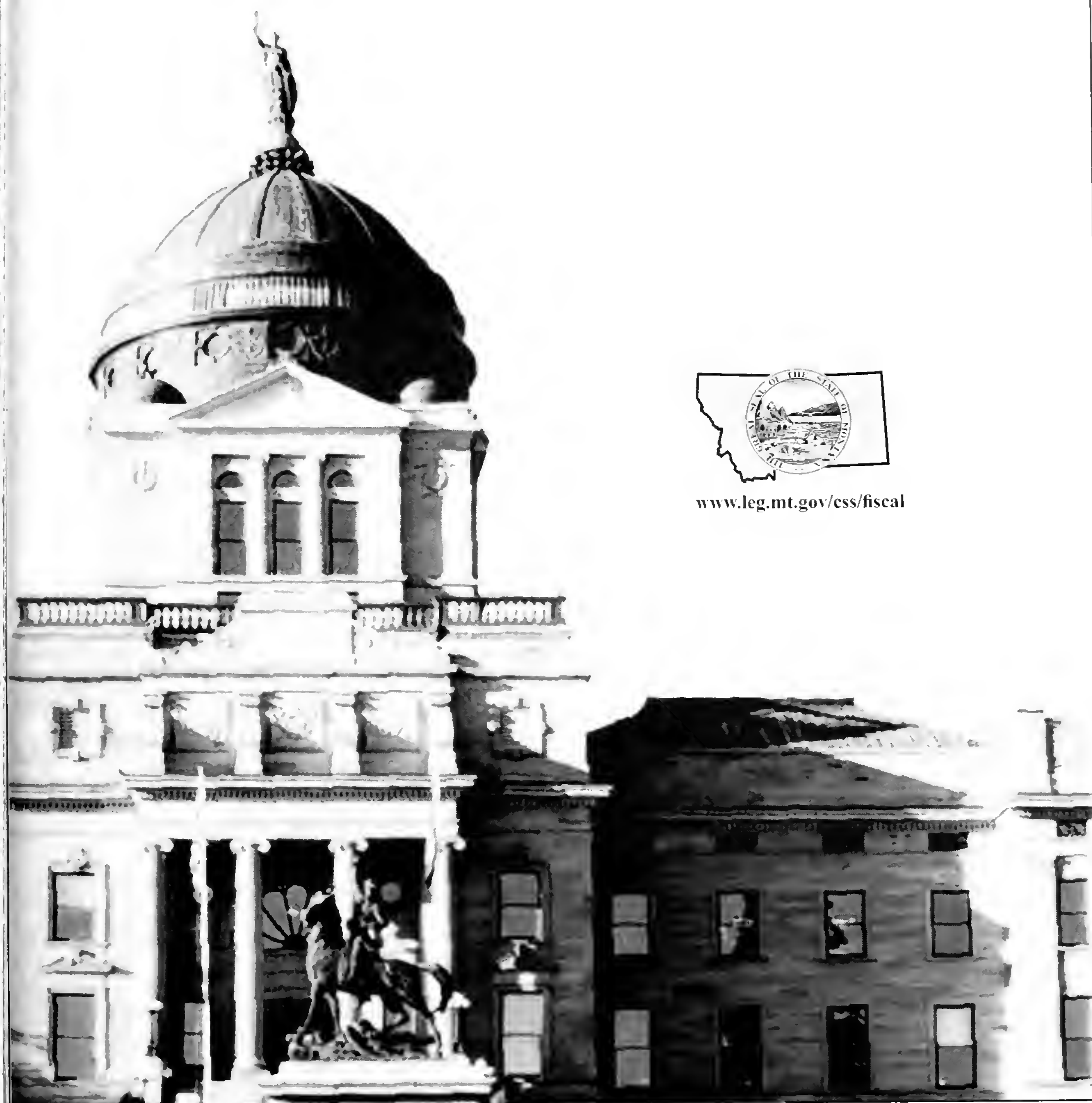
Figure 3 shows the present law budget solution as proposed by the executive. As shown in the figure, the executive proposal relies on higher revenue estimates, fund transfers, funding shifts, and a fund balance reduction to balance the present law budget. From a structural balance perspective, the transfers and fund balance reduction continue the budget gap issue for the 2015 biennium. The net tax policy proposals exacerbate the budgetary gap for the 2013 biennium. It also should be noted that an additional $48 million will be required in the 2015 biennium to continue the tax policy proposals as well as the funding shifts proposed by the executive. These type of delayed impacts would increase a significant budgetary gap issue for the 2013 Legislature.

Figure 3



	Higher Revenue Estimates	Transfers-In	Net Tax Policy Proposals	Funding Shifts/Other Proposals	Fund Balance Reduction
■Amount	$104.3	$71.4	($25.0)	$60.2	$32.8

Agency Summaries



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Agency Summaries

INTRODUCTION

In the pages that follow, the reader can find summary budget information for each agency of Montana state government. The summary for each agency includes:

- An agency budget comparison, showing the FY 2010 base budget, and comparing the 2013 biennium proposed budget to the current 2011 biennium
- An agency description
- An organizational chart for each multi-program agency, with number of FTE or employees and general fund/total fund expenditures for the FY 2010 base year (organizational charts are not provided for small agencies)
- A table of budget highlights and legislative issues when identified

The agencies appear in this section in the following order and at the indicated page number:

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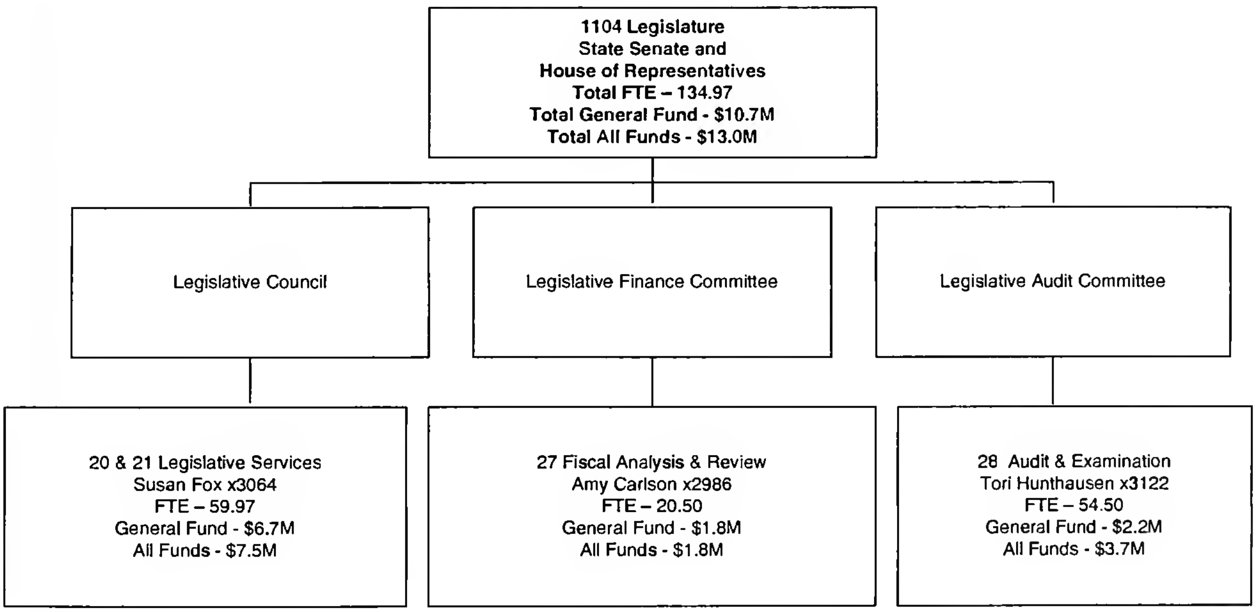
Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	134.97	140.14	134.97	140.14	140.14	140.14	0.00	0.00%
Personal Services	9,975,053	11,251,586	10,873,290	10,858,306	21,226,639	21,731,596	504,957	2.38%
Operating Expenses	2,926,260	3,701,538	3,483,472	3,230,219	6,627,798	6,713,691	85,893	1.30%
Equipment & Intangible Assets	133,233	80,729	75,000	75,000	213,962	150,000	(63,962)	(29.89%)
Benefits & Claims	250	0	0	0	250	0	(250)	(100.00%)
Total Costs	**$13,034,796**	**$15,033,853**	**$14,431,762**	**$14,163,525**	**$28,068,649**	**$28,595,287**	**$526,638**	**1.88%**
General Fund	10,671,264	12,745,186	11,763,554	12,140,721	23,416,450	23,904,275	487,825	2.08%
State Special	2,363,532	2,288,667	2,668,208	2,022,804	4,652,199	4,691,012	38,813	0.83%
Total Funds	**$13,034,796**	**$15,033,853**	**$14,431,762**	**$14,163,525**	**$28,068,649**	**$28,595,287**	**$526,638**	**1.88%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Principal entities of the Legislative Branch (Branch) consolidated under 5-2-503, MCA, include the Senate and the House of Representatives, the Legislative Services Division, the Legislative Fiscal Division, and the Legislative Audit Division. The Senate and the House of Representatives together comprise the Legislature, which exercises the legislative power of state government, creates the laws of the state, and appropriates funds for the functions of state government.

Standing and interim committees of the Legislature, aided by supporting divisions of the Branch, monitor the functions of state government and report to the Legislature. The Legislative Audit Committee, Legislative Council, and Legislative Finance Committee provide oversight and management of legislative divisions during the interim.

The budget for the three staff divisions and legislative interim work is presented in HB 2. The budget for House a Senate activity is presented in HB 1, the "feed bill."

Agency Highlights

Legislative Branch Major Budget Highlights
♦ The budget would increase 1.9% from the 2011 biennium, including a 2.1% increase in general fund, due to the following: • Statewide present law adjustments • Funding of the Districting and Apportionment Commission and a portion of organizational dues • Retrofits of the State Capitol building to address work health issues
Legislative Action Issues
♦ Interim Committee Recommendation ♦ Funding for the Districting and Apportionment Commission ♦ Funding to address healthy work environment recommendations • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	5.54	5.54	5.54	5.54	5.54	5.54	0.00	0.00%
Personal Services	453,709	567,986	572,931	574,618	1,021,695	1,147,549	125,854	12.32%
Operating Expenses	485,539	825,334	1,064,288	1,066,255	1,310,873	2,130,543	819,670	62.53%
Total Costs	**$939,248**	**$1,393,320**	**$1,637,219**	**$1,640,873**	**$2,332,568**	**$3,278,092**	**$945,524**	**40.54%**
State Special	939,248	1,393,320	1,637,219	1,640,873	2,332,568	3,278,092	945,524	40.54%
Total Funds	**$939,248**	**$1,393,320**	**$1,637,219**	**$1,640,873**	**$2,332,568**	**$3,278,092**	**$945,524**	**40.54%**

Agency Description

Agency Mission: The Consumer Counsel represents state-wide consumer interests in hearings before the Public Service Commission and like agencies. On behalf of the public of Montana, the counsel may initiate, intervene, and participate in appropriate proceedings before state or federal courts or administrative agencies. The Montana Consumer Counsel is part of the legislative branch and is overseen by the Legislative Consumer Committee. The Consumer Counsel is provided for by Article XIII, Section 2 of the Montana Constitution, and is governed by Title 5, Chapter 15, and Title 69, Chapters 1 and 2, MCA.

Agency Highlights

Montana Consumer Counsel
Major Budget Highlights

- The majority of the requested statewide present law increase is due to under-filled positions during the base year
- The 62.6% increase in operating expense is due to a request to re-establish funding for consulting and professional fees due to unusually light legal costs during the base year

Legislative Action Issues

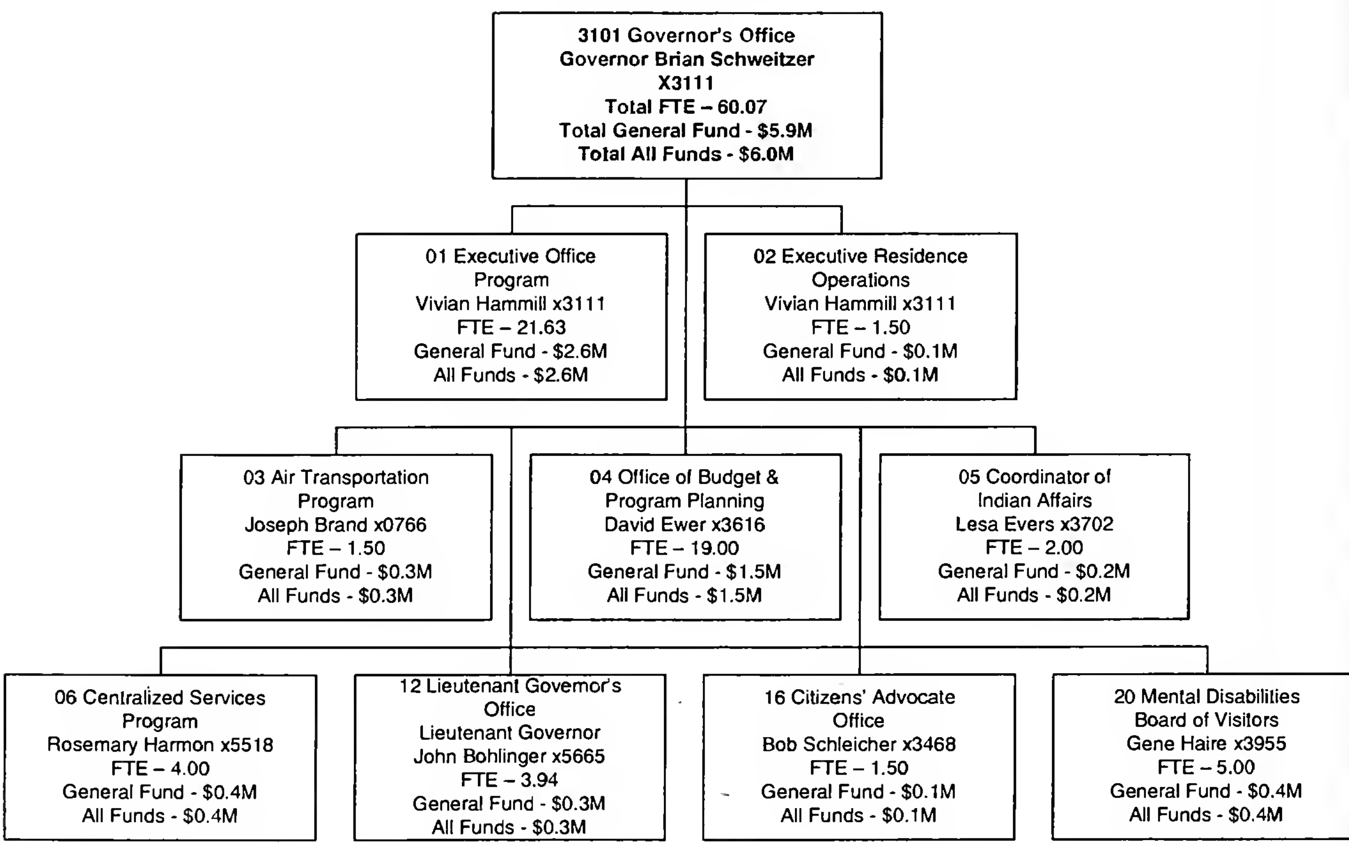
- The single decision package submitted by the executive provides the agency with the possibility of increasing its base expenditures by including caseload contingency funding.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	60.07	60.07	60.07	60.07	60.07	60.07	0.00	0.0
Personal Services	4,465,074	4,605,475	4,502,571	4,500,239	9,070,549	9,002,810	(67,739)	(0.7
Operating Expenses	1,507,560	1,563,598	1,567,852	1,503,989	3,071,158	3,071,841	683	0.0
Equipment & Intangible Assets	0	0	0	0	0	0	0	
Total Costs	**$5,972,634**	**$6,169,073**	**$6,070,423**	**$6,004,228**	**$12,141,707**	**$12,074,651**	**($67,056)**	**(0.55**
General Fund	5,946,921	6,136,573	6,057,949	5,991,819	12,083,494	12,049,768	(33,726)	(0.2
State Special	25,713	32,500	12,474	12,409	58,213	24,883	(33,330)	(57.2
Federal Special	0	0	0	0	0	0	0	
Other	0	0	0	0	0	0	0	
Total Funds	**$5,972,634**	**$6,169,073**	**$6,070,423**	**$6,004,228**	**$12,141,707**	**$12,074,651**	**($67,056)**	**(0.55**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Governor's Office oversees the activities of the executive branch of Montana state government, consistent with statutory and constitutional mandates.

The Office of the Governor exists under authority granted in Article VI of the Montana Constitution. The Governor has constitutional and statutory authority to administer the affairs of the State of Montana. The Governor appoints all military and civil officers of the state whose appointments are provided for by statute or the constitution, grants reprieves and pardons, and serves on various boards and commissions. The Governor approves or vetoes legislation, reports to the legislature on the condition of the state, and submits a biennial executive budget. The Governor also represents the state in relations with other governments and the public.

The Governor's office is comprised of the following programs:

- o The Executive Office
- o The Executive Residence Operations
- o The Air Transportation Program
- o The Office of Budget and Program Planning
- o The Coordinator of Indian Affairs
- o The Centralized Services Division
- o The Lieutenant Governor's Office
- o The Citizens' Advocate Office
- o The Mental Disabilities Board of Visitors

The Mental Health Ombudsman is housed within the Mental Disabilities Board of Visitors program.

Agency Highlights

Governor's Office
Major Budget Highlights

- ♦ The Governor's proposed budget decreases by 0.55% from the prior biennium, primarily due to statewide present law adjustments. The executive has also submitted a 5% reduction plan for the agency that includes a 4% personal services reduction, unspecified across the board reduction, and a reduction in the air transportation state special revenue fund
- ♦ Additional personal services funding is requested in two programs to align budgeted amounts with actual expenditures for previously unfilled positions
- ♦ The Governor's proposal includes $66,400 over the biennium for scheduled computer replacements

Legislative Action Issues

- ♦ Major LFD Issues
  - The executive's statewide present law proposal includes a $19,957 biennial funding switch from state special revenue to general fund in the Citizens' Advocate program
  - A portion of the general fund expenditures for the Governor's Air Transportation program could be replaced by state special revenue
- ♦ Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
Personal Services	0	0	0	0	0	0	0	
Operating Expenses	0	0	0	0	0	0	0	
Equipment & Intangible Assets	0	0	0	0	0	0	0	
Grants	0	0	550,000	0	0	550,000	550,000	
Total Costs	**$0**	**$0**	**$550,000**	**$0**	**$0**	**$550,000**	**$550,000**	
Federal Special	0	0	550,000	0	0	550,000	550,000	
Total Funds	**$0**	**$0**	**$550,000**	**$0**	**$0**	**$550,000**	**$550,000**	

Agency Description

Agency Mission: It is the mission of the Secretary of State to improve services to Montana's voters, business community, and governmental agencies through open communications, effective use of technology, and transparent accountability.

The Secretary of State's Office:

- Interprets state election laws and oversees statewide, federal, legislative, Public Service Commission, district court judge, and ballot issue elections
- Maintains the official records of the executive branch and the acts of the legislature
- Reviews, maintains, and distributes public-interest records of businesses and nonprofit organizations
- Files administrative rules adopted by state departments, boards, and agencies
- Attests to the Governor's signature on executive orders, proclamations, resolutions, extradition papers, and appointments
- Preserves the state seal
- Files and maintains records of secured financial transactions, such as liens
- Serves on the state Board of Land Commissioners and the Board of Examiners
- Commissions notaries public

The Secretary of State's Office consists of one program, the Business and Government Services Program, which provides all the functions of the office.

Agency Highlights

Secretary of State's Office Major Budget Highlights
♦ No base funding exists for the office as the 2009 Legislature designated the \$305,000 federal Help America Vote Act of 2002 (HAVA) funds appropriated for the 2011 biennium as one time only ♦ HB 2 funding consists entirely of a request to fund grants to counties with federal HAVA funds, which would add \$550,000 million for the 2013 biennium ♦ The remainder of the office's funding is derived from non-budgeted proprietary funds
Legislative Action Issues
♦ Proprietary Rate Discussion • Because the proprietary funds are enterprise funds, the legislature does not appropriate or approve rates for the proprietary funding of the office

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Chang
FTE	6.00	6.00	6.00	6.00	6.00	6.00	0.00	0.
Personal Services	259,692	294,068	306,774	307,028	553,760	613,802	60,042	10.
Operating Expenses	174,125	163,785	265,081	259,588	337,910	524,669	186,759	55.
Transfers	0	0	0	0	0	0	0	
Total Costs	**$433,817**	**$457,853**	**$571,855**	**$566,616**	**$891,670**	**$1,138,471**	**$246,801**	**27.**
General Fund	433,817	457,853	571,855	566,616	891,670	1,138,471	246,801	27.
Total Funds	**$433,817**	**$457,853**	**$571,855**	**$566,616**	**$891,670**	**$1,138,471**	**$246,801**	**27.**

Agency Description

Agency Mission: To monitor and to enforce, in a fair and impartial manner, campaign practices and campaign financ disclosure, lobbying disclosure, business interest disclosure of statewide and state district candidates, elected stat officials, and state department directors, ethical standards of conduct for legislators, public officers, and state employees and to investigate legitimate complaints that arise concerning any of the foregoing.

The Commissioner of Political Practices (COPP) has responsibilities that were defined by a legislative initiative in 198 requiring disclosure of acts by lobbyists and business interests of elected officials. COPP also has responsibility for th ethical standards of conduct for legislators, public officers, and state employees pursuant to Title 2, Chapter 2, MCA.

Agency Highlights

Commission of Political Practices
Major Budget Highlights

- The requested total executive budget increases from the previous biennium due to:
    - Statewide present law adjustments for personal services due to vacant positions and reallocation of fixed costs related to IT services
    - Increased funding for legal fees and court costs
- The executive has requested $100,000 over the biennium for increased legal and court costs
- As an agency with fewer than 20.00 FTE, COPP is exempt from the requirement to submit a plan to reduce base expenditures by 5%
- The term of the current Commissioner of Political Practices is due to expire at the end of calendar year 2010

Legislative Action Issues

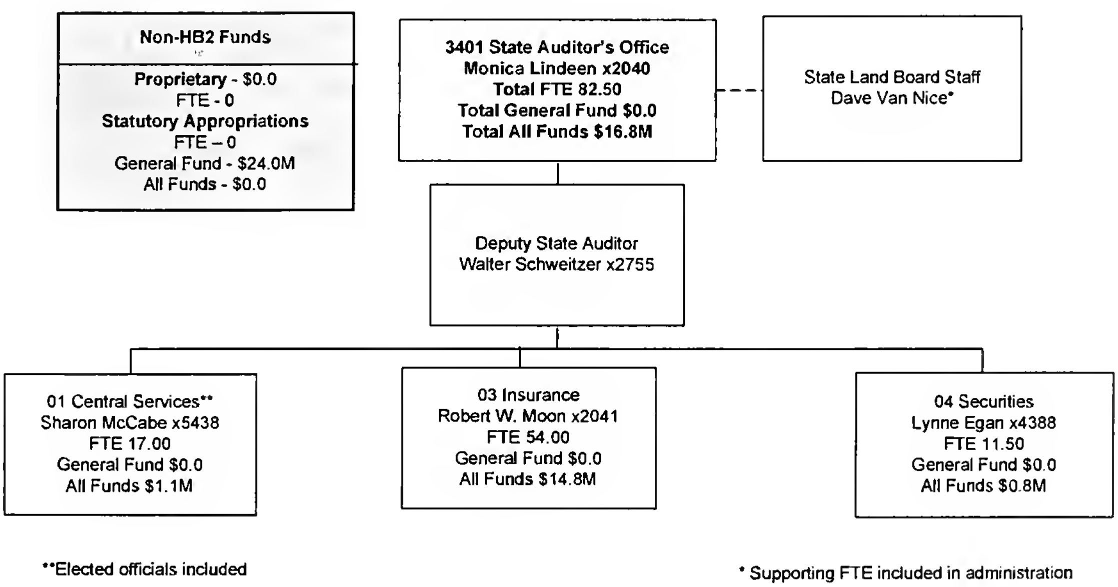
- Staff has provided options for the legislature to consider in dealing with the consistently high costs of legal fees and court costs

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	82.50	82.50	84.50	84.50	82.50	84.50	2.00	2.42%
Personal Services	4,744,653	4,838,404	5,216,716	5,215,431	9,583,057	10,432,147	849,090	8.86%
Operating Expenses	1,743,953	2,658,289	2,797,663	2,454,027	4,402,242	5,251,690	849,448	19.30%
Equipment & Intangible Assets	13,751	0	13,751	13,751	13,751	27,502	13,751	100.00%
Benefits & Claims	10,253,392	11,498,655	11,194,769	11,194,769	21,752,047	22,389,538	637,491	2.93%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$16,755,749**	**$18,995,348**	**$19,222,899**	**$18,877,978**	**$35,751,097**	**$38,100,877**	**$2,349,780**	**6.57%**
State Special	16,755,749	18,995,348	19,222,899	18,877,978	35,751,097	38,100,877	2,349,780	6.57%
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$16,755,749**	**$18,995,348**	**$19,222,899**	**$18,877,978**	**$35,751,097**	**$38,100,877**	**$2,349,780**	**6.57%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



A portion of this agency's on-going funding does not appear in the table because it does not require a specific appropriation. Further information is provided in the funding section.

Agency Description

The Office of the State Auditor is authorized under Article VI of the Montana Constitution. The State Auditor is the ex-officio Commissioner of Securities and Insurance and is responsible for licensing and regulating insurance companies and agents, and registering and regulating securities firms and representatives that transact business to or from Montana. The Commissioner of Securities and Insurance adopts rules and administers reform for the securities and insurance industries operating in the state. The Commissioner also serves as a member of the Land Board and the Crop Hail Insurance Board. The Office of the State Auditor has three divisions: Central Services, Insurance, and Securities.

The State Auditor's Office (SAO) is also responsible to pass through funding for local police and firefighter retiremen programs (Municipal Police Officers' Retirement System, Firefighters' Unified Retirement System, the Volunteer Fir Fighters' Compensation Act, local fire department relief associations, municipalities with police department trust funds and local police pension funds for supplemental benefits). The retirement programs are funded from general insuranc (33-2-705, MCA) and fire insurance premium taxes (50-3-109, MCA) - $24 million in FY 2010. Because these fund are statutorily appropriated, the expenditures are not included in the general appropriations act.

The agency consists of three divisions with the following functions:

- The Centralized Management Division (17.00 FTE) provides management and administrative services for th agency including agency leadership, accounting, budgeting, and human resources
- The Insurance Division (54.00 FTE) is responsible for oversight and regulation of the insurance industry i Montana
- The Securities Division (11.50 FTE) is responsible for oversight and regulation of the securities industry i Montana

Agency Highlights

Office of the State Auditor
Major Budget Highlights

- The State Auditor's Office (SAO) budget request increases $2.3 million compared to the 2011 biennium due primarily to:
  - $0.8 million in personal services to:
    - Make 2.00 FTE funded from one-time funding in the 2011 biennium permanent
    - Annualize pay plan health insurance increases funded by the legislature in the 2011 biennium
  - $0.8 million in operating cost increases for:
    - Contracted services for examinations of insurance companies
    - In-house administration of the captive insurance industry
    - Office rent
  - $0.6 million net increase to continue the Insure Montana base level program funding
- Elected Official Proposal
  - $6.0 million in tobacco tax health and Medicaid initiatives state special revenue to continue one-time funding to expand Insure Montana (HB 258 - 2009 session)

Legislative Action Issues

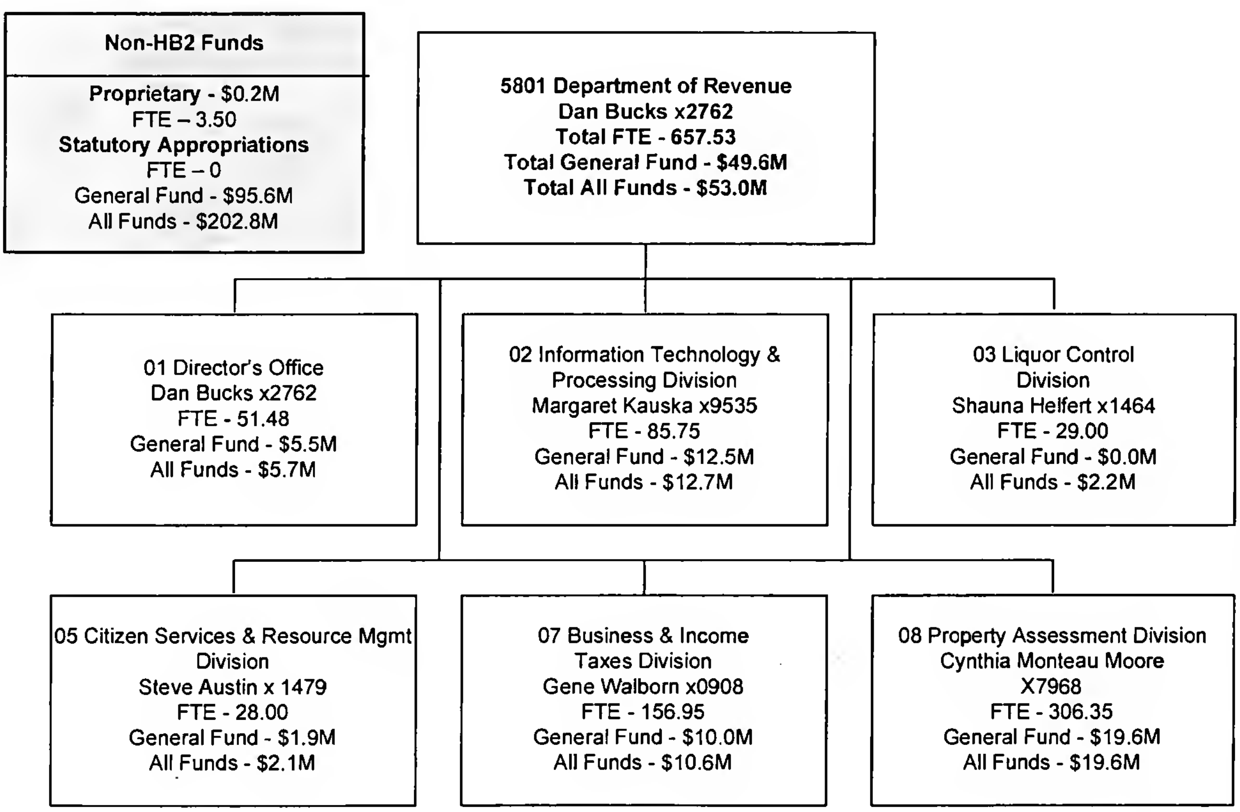
- The legislature may wish to consider whether and how to monitor SAO activities related to implementation of federal health insurance reform (Patient Protection and Affordable Care Act of 2010 -) during the interim
  - Implementation of federal health insurance reform is identified as a critical goal by the SAO as well as the Legislative Finance Committee
  - Development of the health insurance exchange design must be completed and submitted to the U.S. Department of Health and Human Services by January 1, 2013, curtailing the opportunity to review the submission by the next legislature and potentially driving some elements of the 2015 biennium budget request
  - Significant cooperation and work with other state agencies must be undertaken to develop the health insurance exchange design
  - Implementation of a new function to review and approve health insurance rates will be undertaken if LC 269 is passed and approved
- The legislature may wish to request that an interim legislative committee review how Insure Montana can be integrated into federal health insurance exchanges and make recommendations to the 2013 Legislature including identification of:
  - Areas of duplication between the state and federal programs
  - Types of efficiencies that might be achieved
- Interim Committee Recommendations
  - The Economic Affairs Committee approved several bill draft requests made by the State Auditor's Office, most in conjunction with federal health care reform
  - The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	657.53	657.53	672.53	672.53	657.53	672.53	15.00	2.2
Personal Services	34,802,579	36,298,202	37,170,919	37,248,919	71,100,781	74,419,838	3,319,057	4.6
Operating Expenses	17,778,349	17,385,845	16,190,987	16,077,989	35,164,194	32,268,976	(2,895,218)	(8.2
Equipment & Intangible Assets	383,777	70,095	330,978	330,978	453,872	661,956	208,084	45.8
Transfers	0	0	0	0	0	0	0	
Total Costs	**$52,964,705**	**$53,754,142**	**$53,692,884**	**$53,657,886**	**$106,718,847**	**$107,350,770**	**$631,923**	**0.5**
General Fund	49,569,692	50,171,670	49,609,233	49,570,431	99,741,362	99,179,664	(561,698)	(0.5
State Special	761,721	815,907	1,182,824	1,179,757	1,577,628	2,362,581	784,953	49.7
Federal Special	204,942	206,447	270,210	271,218	411,389	541,428	130,039	31.6
Other	2,428,350	2,560,118	2,630,617	2,636,480	4,988,468	5,267,097	278,629	5.5
Total Funds	**$52,964,705**	**$53,754,142**	**$53,692,884**	**$53,657,886**	**$106,718,847**	**$107,350,770**	**$631,923**	**0.5**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: The Department of Revenue administers 38 Montana taxes and fees to achieve equity and integrity, while protecting taxpayer rights and information; values all property as accurately as possible and supervises Montana's property tax system; administers liquor laws to protect public health and safety; receives abandoned property and seeks to return it to its rightful Montana owners; informs and advises the Governor, the legislature, and the public on tax trends

and issues; and cooperates with local, state, tribal, and federal governments to advance the public interest under the law.

The Department of Revenue collects revenue from and enforces regulations for 38 state taxes and fees; values all property in the state and supervises the property tax system; regulates the sale and distribution of alcoholic beverages in the state; and administers abandoned property laws and a one-stop business registration system for multiple agencies.

The Department of Revenues is comprised of the following programs:

- Director's Office supports the agency's director and is composed of the following four functional units:
  - Legal Services supervises the overall legal efforts of the department, which includes rules, policies, bankruptcy, disclosure officer, and the Office of Dispute Resolution
  - Tax, Policy and Research is responsible for the preparation of legislative fiscal notes that affect revenue, the analysis of legislative proposals affecting the department, and department economic data and tax compliance analysis
  - Human Resources manages the personnel activities of the department. The office includes three functional units for: human resources, payroll and benefits, and education and training
  - Executive Office provides budget analyst, public relations, and administrative support for the department
- Information Technology and Processing Division has two main functions:
  - Provides application development and support services, as well as network services in the areas of data, desktop, information security, and help desk support
  - Processes tax returns and payments for the department and for state agencies
- Liquor Control Division administers the state's alcoholic beverage code, which governs the control, sale, and distribution of alcoholic beverages. The division includes
  - Liquor distribution
  - Liquor licensing
- Citizen Services and Resource Management Division provides service to:
  - Montana citizens, businesses, and nonresident taxpayers through a call center, forms design, and other taxpayer services
  - Other divisions of the department in the areas of accounting, purchasing, and facilities and asset management
- Business and Income Taxes Division has three main functions:
  - Oversees audits and verifies compliance with Montana tax law for all state taxes, oversees state revenue collection activity, and completes appraisals and assessments of industrial and centrally assessed property
  - Administers the Unclaimed Property Program to return unclaimed property (lost money and other properties) to its rightful owners
  - Operates a proprietary funded program to collect on behalf of state agencies debt owed to the state that is associated with delinquent accounts
- Property Assessment Division is responsible for the valuation and assessment of real and personal property throughout the state for property tax purposes

Agency Highlights

Department of Revenue Major Budget Highlights
♦ General fund for the 2013 biennium is $561,700, or 0.6%, lower than in the 2011 biennium. Offsetting factors for this change are: • Statewide present law adjustments reduce general fund largely because of a reduction in the ITSD fixed cost allocation to the agency • Multiple programs reduced the number of vehicles they would lease from the State Motor Pool to reduce general fund • Ongoing reductions were made to account for reductions implemented in FY 2011 as a result of the 17-7-140, MCA, reductions ordered by the Governor • Funding associated with base expenditures to install video conferencing equipment was removed since the expenditures were not ongoing in nature • Funding to add 8.00 FTE for tax compliance targeted at the area the department identified with the largest non-compliance -- non-residents and out-of-state companies ♦ State special fund expenditures is nearly $0.8 million, or 49.8%, higher in the 2013 biennium than the 2011 biennium due to: • Use of tobacco settlement funding to convert 3.00 FTE from modified status to permanent for tobacco tax compliance work • Use of abandoned property state special revenue to convert 2.00 FTE from modified status to permanent to address workload issues • Funding to add 1.00 FTE to administer hail insurance premiums and livestock per capita fees ♦ Federal special fund expenditures increase by a little over $0.1 million to fund federal mineral royalty audits at the level authorized in the current agreement with the federal government ♦ Staffing increases by 15.00 FTE for the following purposes: • To convert 6.00 FTE from modified status to permanent to: 1) administer the abandoned property program (2.00 FTE); 2) perform tobacco tax compliance work (3.00 FTE); and 3) establish a position for the Granite County appraiser (1.00 FTE) • To add 1.00 FTE to administer the hail insurance premiums and livestock per capita fees with funding from statutorily allowable retention of fees collected • To add 8.00 FTE to address tax compliance of areas the agency determined to have the highest level of non-compliance – non-residents and out-of-state companies ♦ The agency was exempted from the requirement in the executive budget of a 4% reduction in personal services

Legislative Action Issues

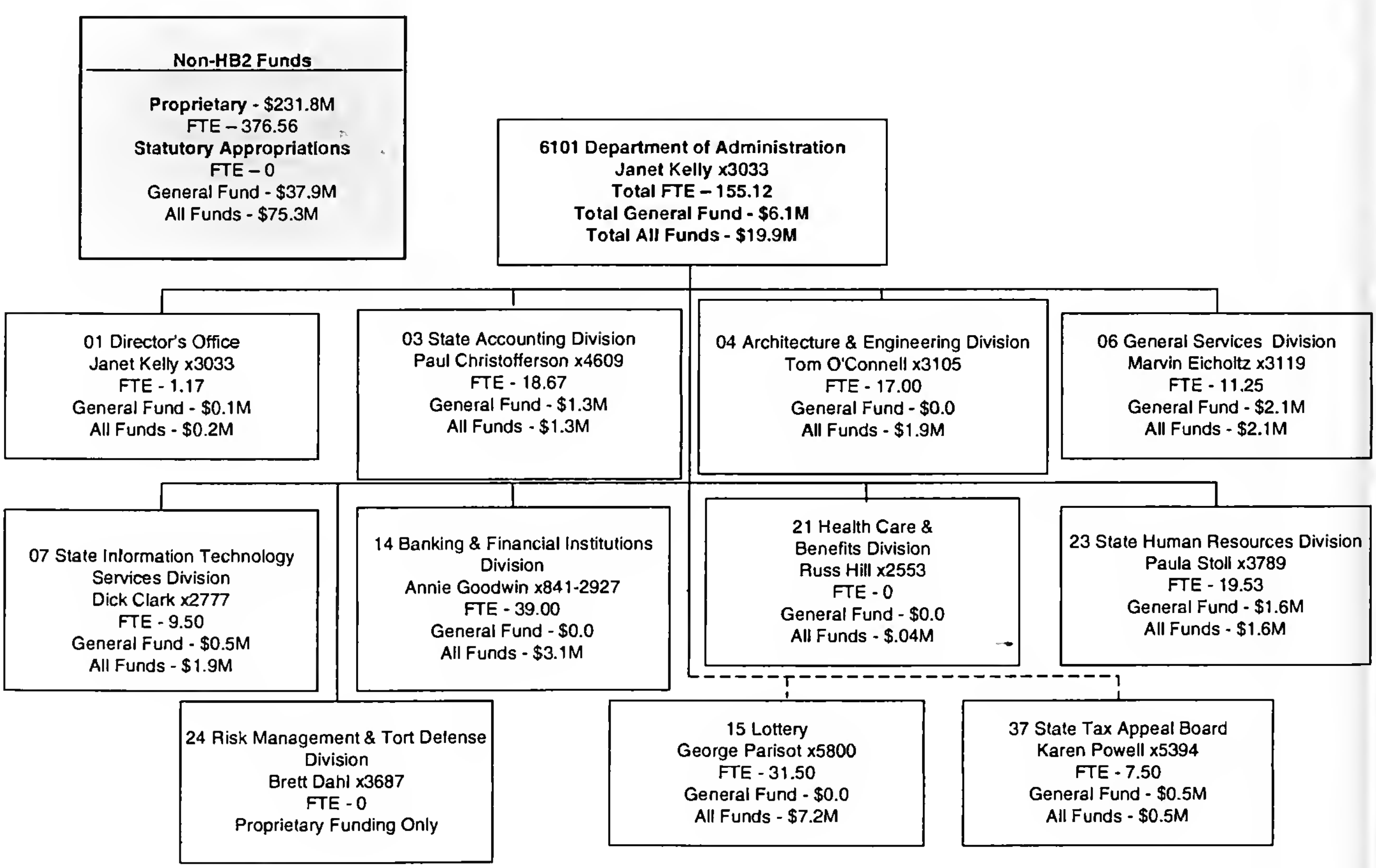
- Major/agency-wide LFD issues
  - A 5% plan item that was not included in the budget request and is allocated to all programs funded with general fund based on the program's share of total general fund in the agency does not specify what services would be impacted
  - The agency states that efficiencies would be realized from the Efficiencies Through Imaging project approved by the 2009 Legislature, but no associated reductions are included in the budget request. A legislative option is provided for setting the stage for future realization of the savings
  - A one-time payment to retire costs of a prior building renovation could save general fund in the long-term
  - Restricted funding designations are recommended for two adjustments in the Liquor Division
  - Collection services internal services fund balance is being depleted
- Proprietary Rate Decisions
  - The legislature must approve rates for the Collection Services Program within the Business and Income Tax Division
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	155.12	155.12	153.63	153.63	155.12	153.63	(1.49)	(0.9
Personal Services	9,395,163	10,127,479	10,287,859	10,329,268	19,522,642	20,617,127	1,094,485	5.6
Operating Expenses	9,553,673	9,009,538	9,786,024	9,587,457	18,563,211	19,373,481	810,270	4.3
Equipment & Intangible Assets	42,077	42,077	42,077	42,077	84,154	84,154	0	0.0
Local Assistance	39,206	37,633	43,206	42,206	76,839	85,412	8,573	11.1
Grants	838,563	1,483,576	838,563	838,563	2,322,139	1,677,126	(645,013)	(27.7
Transfers	0	75,000	0	0	75,000	0	(75,000)	(100.0
Debt Service	32,050	32,050	176,275	0	64,100	176,275	112,175	175.0
Total Costs	**$19,900,732**	**$20,807,353**	**$21,174,004**	**$20,839,571**	**$40,708,085**	**$42,013,575**	**$1,305,490**	**3.2**
General Fund	6,054,826	6,212,547	6,426,155	6,198,509	12,267,373	12,624,664	357,291	2.9
State Special	6,508,794	7,884,856	7,117,969	7,111,969	14,393,650	14,229,938	(163,712)	(1.1
Federal Special	42,043	48,739	42,043	42,043	90,782	84,086	(6,696)	(7.3
Other	0	0	0	0	0	0	0	
Other	7,295,069	6,661,211	7,587,837	7,487,050	13,956,280	15,074,887	1,118,607	8.0
Total Funds	**$19,900,732**	**$20,807,353**	**$21,174,004**	**$20,839,571**	**$40,708,085**	**$42,013,575**	**$1,305,490**	**3.2**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission - The Department of Administration's mission is to serve, satisfy, and support our customers.

The Department of Administration provides support services for state agencies in the following areas:

- Accounting, financial reporting, and warrant writing
- Audit review, enforcement and technical assistance for local governments
- State treasury services
- State-bonded indebtedness administration
- Capitol complex grounds and building maintenance and security
- Duplicating, mail and messenger services
- Procurement and surplus property administration
- Information systems development, telecommunications, geographic information services, 9-1-1 program management, data processing, and public safety radio communications
- Human resource management, workforce development and labor relations
- State financial institution oversight and regulation
- Insurance coverage and risk management programs
- Tort Claims Act administration
- Long-Range Building Program
- State employee group benefits
- Workers compensation management

The following boards and commissions are attached to the department for administrative purposes only:

- Board of Examiners
- Burial Preservation Board
- Information Technology Board
- Public Employees' Retirement Board
- State Banking Board
- State Board of County Printing
- State Compensation Insurance Fund Board
- State Tax Appeal Board

The department is comprised of the following programs that are each discussed separately in their individual sections:

- Director's Office
- Governor Elect
- State Accounting
- Architecture and Engineering
- General Services
- Information Technology Services
- Banking and Financial
- Montana State Lottery
- Health Care and Benefits
- State Human Resources
- Risk Management and Tort Defense
- State Tax Appeals Board

Agency Highlights

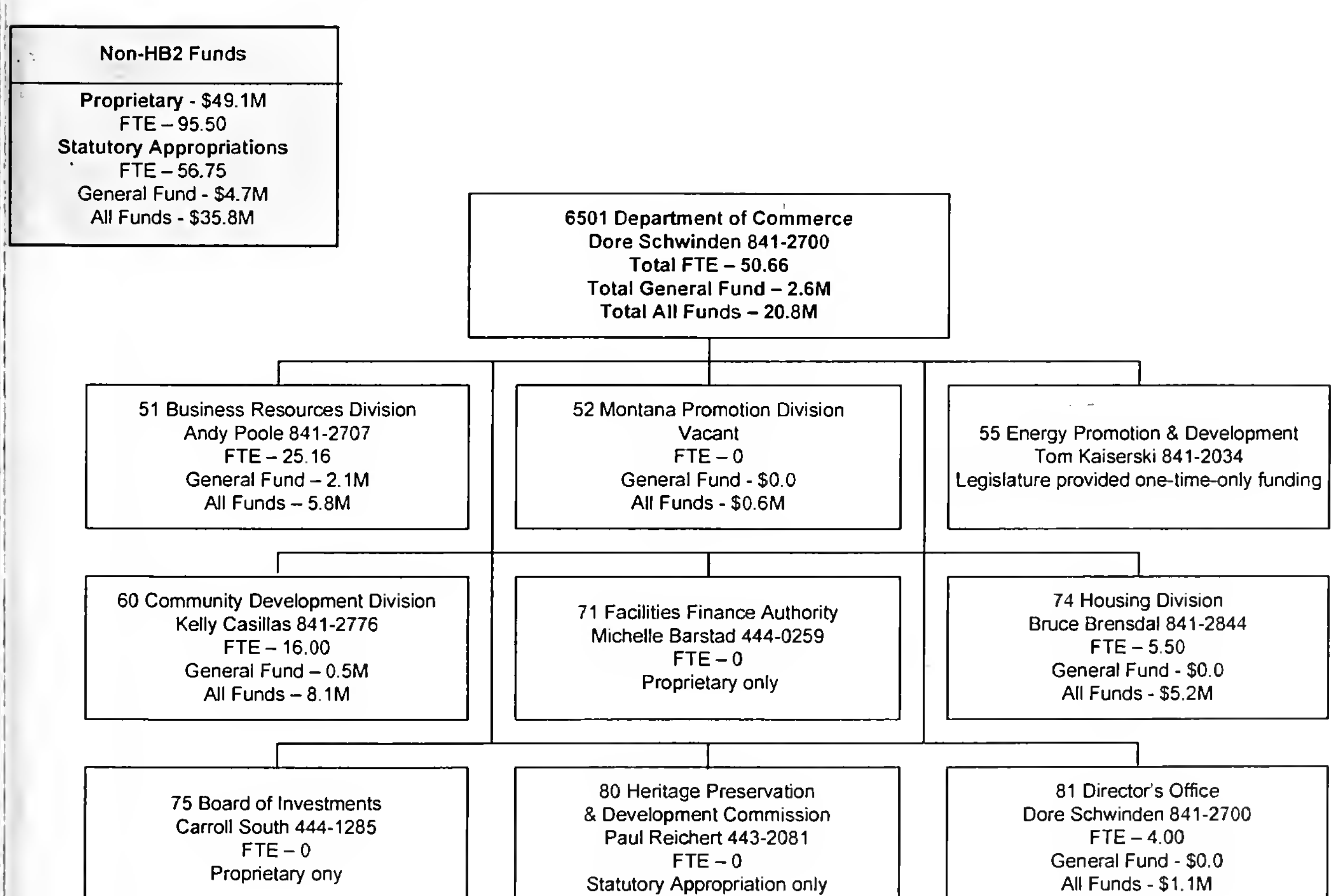
Department of Administration Major Budget Highlights
♦ General fund increases nearly \$357,000, or 2.9% when comparing the 2013 biennium to the 2011 biennium due to: • Statewide present law adjustments (nearly \$825,000) • Final lease payment and option to buy the building that houses the Office of Public Instruction (\$144,225) • Costs to prepare and sell the state-owned building that previously housed the headquarters for the Department of Corrections (\$53,500) • Governor-elect startup costs (\$50,000) • Costs for workload impacts on county tax appeal boards due to the property reappraisal (\$42,000) • Burial board travel and meeting costs (\$24,000) ♦ 5% reduction plan items would reduce general fund by nearly \$593,000
Legislative Action Issues
♦ Major/agency-wide LFD Issues • Revenues for the proprietary fund for the Central Stores Program do not support operating expenses • The legislature has options other than a working capital rate to fund proprietary programs ♦ Proprietary Rate Decisions • A number of programs and functions are funded with proprietary funds, for which the legislature sets a maximum rate, rather than a specific appropriation ♦ Interim Committee Recommendations • The Legislative Finance Committee recommends that base minus 5% be the starting point for legislative deliberations

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	50.66	50.66	56.00	56.00	50.66	56.00	5.34	10.54%
Personal Services	3,014,479	3,199,829	3,564,807	3,565,264	6,214,308	7,130,071	915,763	14.74%
Operating Expenses	3,310,301	5,178,533	6,463,726	6,754,586	8,488,834	13,218,312	4,729,478	55.71%
Equipment & Intangible Assets	0	97,650	0	0	97,650	0	(97,650)	(100.00%)
Grants	14,505,844	22,354,042	18,382,856	18,756,426	36,859,886	37,139,282	279,396	0.76%
Transfers	0	0	0	0	0	0	0	n/a
Total Costs	**$20,830,624**	**$30,830,054**	**$28,411,389**	**$29,076,276**	**$51,660,678**	**$57,487,665**	**$5,826,987**	**11.28%**
General Fund	2,598,996	2,692,843	5,011,683	5,012,435	5,291,839	10,024,118	4,732,279	89.43%
State Special	4,216,567	6,178,304	7,333,031	7,300,737	10,394,871	14,633,768	4,238,897	40.78%
Federal Special	14,015,061	21,958,907	16,066,675	16,763,104	35,973,968	32,829,779	(3,144,189)	(8.74%)
Total Funds	**$20,830,624**	**$30,830,054**	**$28,411,389**	**$29,076,276**	**$51,660,678**	**$57,487,665**	**$5,826,987**	**11.28%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description
The Department of Commerce strives to enhance the economic prosperity for all Montanans. The department works its with customers (economic and community development organizations, businesses, communities, governmental entities, elected officials, and the public) to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of our infrastructure, housing and facilities.

The department is composed of nine major divisions as follows:

Business Resources Division
- Board of Research and Commercialization Technology
- State Tribal Economic Development Commission
- Regional Development Bureau
- Census and Economic Information Center
- Trade and International Relations Bureau
- Small Business Development Center Bureau

Montana Promotion Division
- Tourism Marketing and Promotion
- Film Marketing and Promotion
- Tourism Development and Education
- Industry Services and Operations

Energy Promotion & Development Division
Community Development Division
- Community Development Block Grant Program
- Community Technical Assistance Program
- Treasure State Endowment Program
- Neighborhood Stabilization Program
- Coal Board
- Hard Rock Mining Impact Board

Montana Facility Finance Authority
Housing Division
- Board of Housing
- Housing Assistance Bureau

Board of Investments
Montana Heritage Commission
Director's Office
- Offices of Accounting and Budget, Legal Affairs, Human Resources, Information Technology, and Public Information
- Quality Schools Program
- Montana Council on Developmental Disabilities

The Department of Commerce encompasses a number of programs that provide grant administration, federal program administration, state initiatives, and investment services in order to diversify and expand the state's economic base through business creation, expansion, and retention and improvement of infrastructure, housing and facilities.

Agency Highlights

Department of Commerce
Major Budget Highlights

- The general fund would increase over 89% compared to the 2011 biennium due primarily to the Governor's proposed maintenance of three programs, including 4.00 FTE, designated as one-time-only by the previous legislature:
    - Indian country economic development
    - Montana Main Street
    - Primary business sector training grants
- The Governor would also provide general fund for operating expenses of the supercomputer in Butte
- These increases would be partially offset by the elimination of the Regional Development Program, including 3.66 FTE
- State special revenues would increase due to:
    - Loans to certified Micro-business development corporations
    - Increased coal board grants

Legislative Action Issues

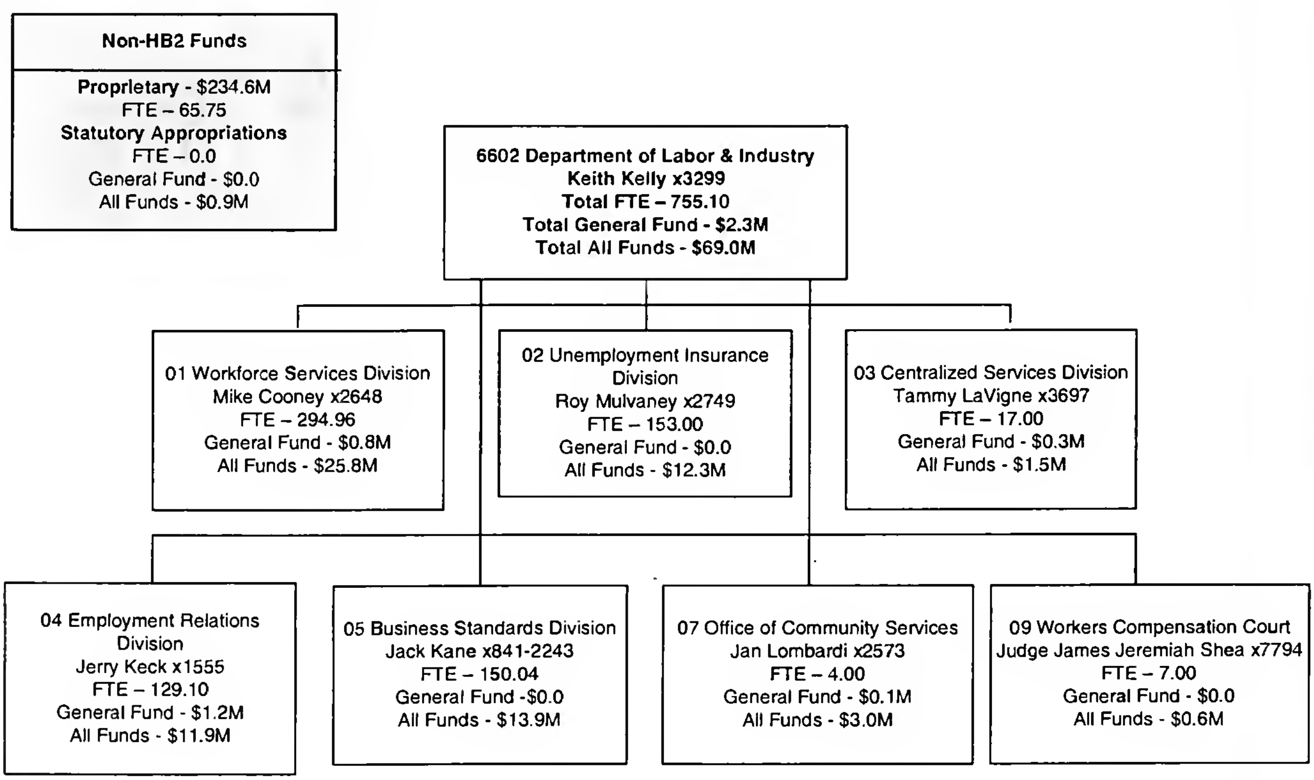
- Interim Committee Recommendations
    - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	755.10	755.10	757.22	757.22	755.10	757.22	2.12	0.2
Personal Services	37,392,570	41,436,981	42,341,455	42,333,367	78,829,551	84,674,822	5,845,271	7.4
Operating Expenses	20,324,240	21,629,850	23,118,609	23,210,975	41,954,090	46,329,584	4,375,494	10.4
Equipment & Intangible Assets	274,234	437,032	274,234	274,234	711,266	548,468	(162,798)	(22.8
Grants	10,452,612	8,729,072	11,779,098	11,779,098	19,181,684	23,558,196	4,376,512	22.8
Benefits & Claims	103,300	126,085	103,300	103,300	229,385	206,600	(22,785)	(9.9
Transfers	438,265	636,083	251,907	251,907	1,074,348	503,814	(570,534)	(53.1
Debt Service	3,775	3,775	3,775	3,775	7,550	7,550	0	0.0
Total Costs	**$68,988,996**	**$72,998,878**	**$77,872,378**	**$77,956,656**	**$141,987,874**	**$155,829,034**	**$13,841,160**	**9.7**
General Fund	2,308,627	2,612,713	2,417,105	2,427,988	4,921,340	4,845,093	(76,247)	(1.5
State Special	35,856,229	38,237,903	40,334,522	40,459,781	74,094,132	80,794,303	6,700,171	9.0
Federal Special	30,767,415	32,047,983	35,032,341	34,980,370	62,815,398	70,012,711	7,197,313	11.4
Other	56,725	100,279	88,410	88,517	157,004	176,927	19,923	12.6
Total Funds	**$68,988,996**	**$72,998,878**	**$77,872,378**	**$77,956,656**	**$141,987,874**	**$155,829,034**	**$13,841,160**	**9.7**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: The purpose of the Department of Labor and Industry is to promote the well-being of Montana's workers, employers, and citizens, and to uphold their rights and responsibilities.

The Department of Labor and Industry (DOLI) has a number of functions. In part, the department:

- Serves as an employment agency, provides job training to assist individuals in preparing for and finding jobs, and assists employers in finding workers
- Oversees federal and state training and apprenticeship programs
- Conducts research and collects employment statistics
- Administers the unemployment insurance program and disburses state unemployment benefits
- Enforces state and federal labor standards, anti-discrimination laws, and state and federal safety-occupational health laws
- Provides adjudicative services in labor-management disputes
- Licenses, inspects, tests, and certifies all weighing or measuring devices used in making commercial transactions in the State of Montana
- Provides administrative and clerical services to the 40 professional boards and occupational licensing programs authorized by state statutes
- Establishes and enforces minimum building codes
- Administers the federal AmeriCorps, Campus Corps, and Volunteer Montana programs through the Office of Community Services
- Oversees and regulates the Montana Workers' Compensation system

Organizationally, the department is divided into five divisions: 1) Workforce Services; 2) Unemployment Insurance; 3) Commissioner's Office/Centralized Services; 4) Employment Relations; and 5) Business Standards. The Office of Community Services, Workers' Compensation Court, and three boards are administratively attached.

Agency Highlights

Department of Labor and Industry
Major Budget Highlights

- The overall increase in the budget from the 2011 biennium level is due primarily to:
  - Statewide present law adjustments
  - Significant increases in 5 of the 7 divisions for indirect assessments
  - Funding the incumbent worker program at the 2011 biennium appropriated level
  - Funding for utilization and treatment guidelines

Legislative Action Issues

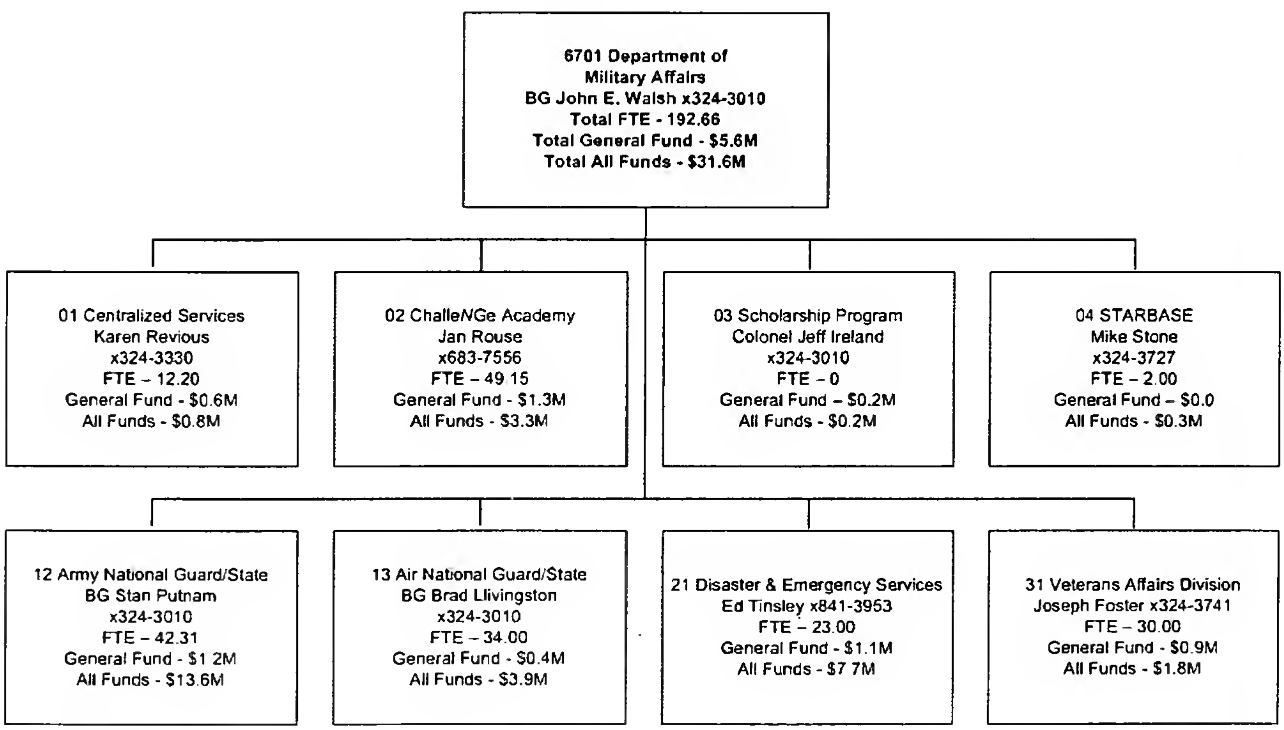
- The executive would fund the incumbent worker program from the employment security account
- Indirect costs increase significantly over the FY 2010 level
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	192.66	192.66	193.82	193.82	192.66	193.82	1.16	0.6(
Personal Services	10,767,265	10,506,254	11,184,368	11,209,981	21,273,519	22,394,349	1,120,830	5.2
Operating Expenses	14,815,955	16,327,320	15,610,541	15,562,628	31,143,275	31,173,169	29,894	0.1(
Equipment & Intangible Assets	357,423	323,976	357,423	357,423	681,399	714,846	33,447	4.9
Capital Outlay	0	0	0	0	0	0	0	
Grants	5,265,505	13,614,431	5,367,505	5,367,505	18,879,936	10,735,010	(8,144,926)	(43.14
Benefits & Claims	2,280	2,280	2,280	2,280	4,560	4,560	0	0.0(
Transfers	441,549	0	441,549	441,549	441,549	883,098	441,549	100.0(
Total Costs	**$31,649,977**	**$40,774,261**	**$32,963,666**	**$32,941,366**	**$72,424,238**	**$65,905,032**	**($6,519,206)**	**(9.00**
General Fund	5,612,637	5,825,156	5,622,291	5,613,922	11,437,793	11,236,213	(201,580)	(1.76
State Special	1,127,398	1,393,170	1,383,886	1,366,373	2,520,568	2,750,259	229,691	9.1
Federal Special	24,909,942	33,555,935	25,957,489	25,961,071	58,465,877	51,918,560	(6,547,317)	(11.20
Total Funds	**$31,649,977**	**$40,774,261**	**$32,963,666**	**$32,941,366**	**$72,424,238**	**$65,905,032**	**($6,519,206)**	**(9.00**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: To provide for safety and well being for citizens of Montana through mission-ready forces, for federal and state activations, emergency services as directed by the Governor, and services to Montana Veterans.

The Department of Military Affairs is administered by the Adjutant General and his staff. The agency oversees all activities of the Army and Air National Guard, Disaster and Emergency Services, the National Guard Youth Challenge program, and the National Guard educational outreach program, STARBASE. The Veterans Affairs Division, which is administratively attached to the department, manages and coordinates with state and federal agencies in providing services for veterans and their families as well as the state veterans' cemeteries.

The department, through the Army and Air National Guard, manages a joint federal-state program that maintains trained and equipped military organizations for the Governor in the event of a state emergency and the President in the event of a national emergency. The department also plans for and coordinates state responses in disaster and emergency situations.

Agency Highlights

Department of Military Affairs
Major Budget Highlights

- The Governor's proposed budget decreases by 9% from the previous biennium due primarily from a change in the requested level of federal special revenue spending authority related to federal grant funds
- Major initiatives in the executive budget include:
    - 4% personal services general fund reduction eliminating 4.84 FTE across the agency
    - The addition of 6.0 FTE fire fighter positions in the Air National Guard
- General fund decreases by 1.76% over the biennium due to:
    - A change in the state-federal funding match for the Youth Challenge program
    - The 4% personal services general fund reductions

Legislative Action Issues

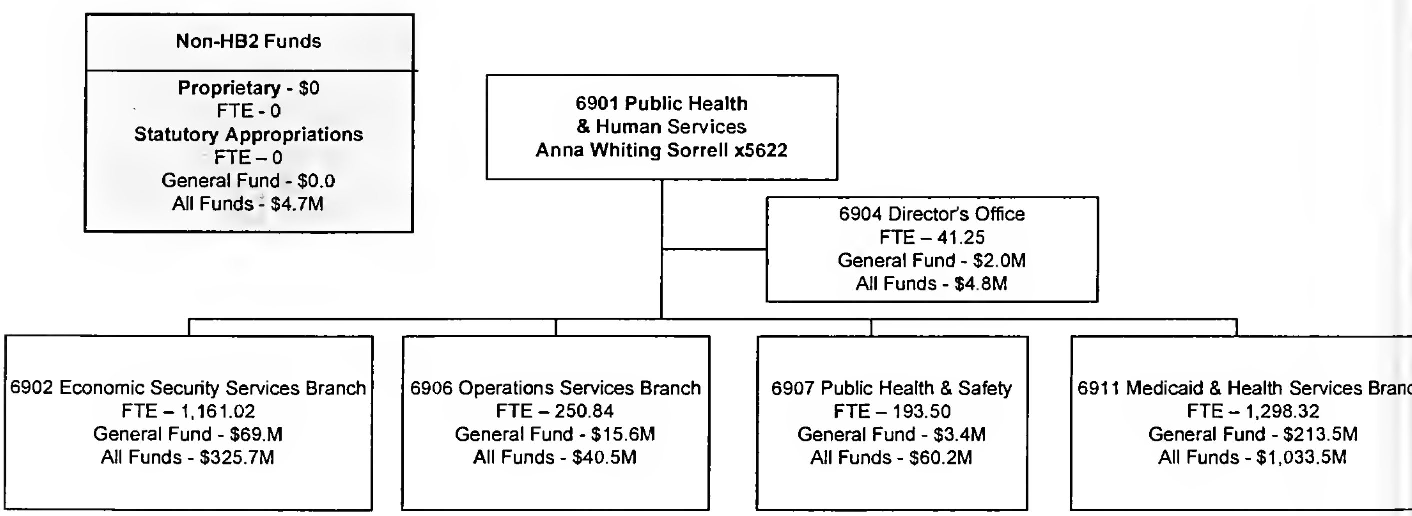
- Major LFD Issues
    - There is no proposal included in the executive budget to address ongoing personal services expenditure/funding issues in the Youth Challenge Program
    - Requested level of funding for the Veterans' Affairs program is not sustainable from the state special revenue account budgeted
- Interim Committee Recommendations
    - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	2944.93	2944.93	2942.68	2938.39	2944.93	2938.39	(6.54)	-0.22%
Personal Services	153,766,363	162,901,514	161,097,304	160,825,182	316,667,877	321,922,486	5,254,609	1.66%
Operating Expenses	98,996,562	103,741,189	107,479,735	109,073,137	202,737,751	216,552,872	13,815,121	6.81%
Equipment & Intangible Assets	663,318	1,293,488	670,318	670,318	1,956,806	1,340,636	(616,170)	-31.49%
Grants	63,535,583	68,164,823	67,938,868	66,944,569	131,700,406	134,883,437	3,183,031	2.42%
Benefits & Claims	1,147,297,504	1,216,679,067	1,479,291,275	1,565,309,991	2,363,976,571	3,044,601,266	680,624,695	28.79%
Debt Service	351,901	516,969	351,901	351,901	868,870	703,802	(165,068)	-19.00%
Total Costs	**$1,464,611,231**	**$1,553,297,050**	**$1,816,829,401**	**$1,903,175,098**	**$3,017,908,281**	**$3,720,004,499**	**$702,096,218**	**23.26%**
General Fund	303,495,348	369,077,195	423,795,769	417,213,383	672,572,543	841,009,152	168,436,609	25.04%
State Special	118,771,216	126,929,068	141,450,698	161,480,125	245,700,284	302,930,823	57,230,539	23.29%
Federal Special	1,042,344,667	1,057,290,787	1,251,582,934	1,324,481,590	2,099,635,454	2,576,064,524	476,429,070	22.69%
Total Funds	**$1,464,611,231**	**$1,553,297,050**	**$1,816,829,401**	**1,903,175,098**	**$3,017,908,281**	**$3,720,004,499**	**$702,096,218**	**23.26%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD t include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agenc proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission statement: Improving and protecting the health, well-being and self-reliance of all Montanans

The Department of Public Health and Human Services (DPHHS) administers a wide spectrum of programs and projects including: public assistance, Medicaid, foster care and adoption, nursing home licensing, long-term care, aging services alcohol and drug abuse programs, mental health services, vocational rehabilitation, disability services, child suppo enforcement activities, and public health functions (such as communicable disease control and preservation of publi health through chronic disease prevention).

As shown on the organization chart, the department has four branches and the Director's Office. The branches and th related divisions are:

- Economic Security Services Branch consisting of the Management and Disability Transition Program, Human and Community Services Division, Child and Family Services Division, and the Child Support Enforcement Division
- Operations Services Branch consisting of the Business and Financial Services Division, Quality Assurance Division, Technology Services Division, and the Management and Fair Hearings Program
- Public Health and Safety Branch
- Medicaid and Health Services Branch consisting of the Disability Services Division, Health Resources Division, Medicaid and Health Services Program, Senior and Long-term Care Division, and the Addictive and Mental Disorders Division

The department is also responsible for all state facilities except correctional institutions. DPHHS facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Center, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans' Home, Glendive; Montana Veterans' Home, Columbia Falls; and Montana Developmental Center, Boulder.

Agency Budget Highlights and Legislative Action Items

Department of Public Health and Human Services
Major Budget Highlights

- The DPHHS 2013 biennium budget request is $702.1 million ($168.4 million general fund) higher than the 2011 biennium.
- Funding for benefits (direct services to eligible persons) adds $680.6 million total funds over the biennium, primarily due:
  - Medicaid service utilization and eligibility increases - $276.4 million total funds and $152.3 million general fund
  - Supplemental Nutrition Assistance Program (SNAP) - $250.0 million
  - Healthy Montana Kids (HMK) program increased enrollment and service utilization - $92.2 million
  - Low Income Energy Assistance Payments (LIEAP) and weatherization - $25.0 million
  - A Medicaid expansion to shift 800 individuals from the state funded Mental Health Services Plan (MHSP) to Medicaid services, which has been discussed with the 2007 and 2009 legislatures - $17.0 million
  - Temporary Assistance for Needy Families (TANF) benefits, economic security and employment programs - $15.0 million
  - Developmentally disabled individuals moving from state funded services to Medicaid services - $4.0 million
- Part of the increases in Medicaid and SNAP services continue one-time funding from the 2011 biennium due to the federal stimulus legislation
- Operating costs increase primarily due to contract adjustments supporting:
  - Agency-wide information technology (IT) systems supporting accounting, management and reporting functions of Medicaid and public assistance programs
  - Training and program support for public assistance programs across the state as well as provision of veterans services at the Eastern Montana Veterans' Home
  - A contingency request of $1.6 million state special revenue by the Montana Telecommunications Program should the federal government mandate that states pay for new technologies in telecommunication programs

- ♦ Increased funding for FTE is primarily due to statewide and present law adjustments and the net of new proposals for total reductions in funding equivalent to 5.79 full time positions and offsetting increases of:
  - 20.00 FTE to administer HMK (an additional 8.00 above the 12.00 temporary FTE funded by the 2009 Legislature)
  - 5.00 FTE to implement expanded Medicaid family planning services

Legislative Action Issues

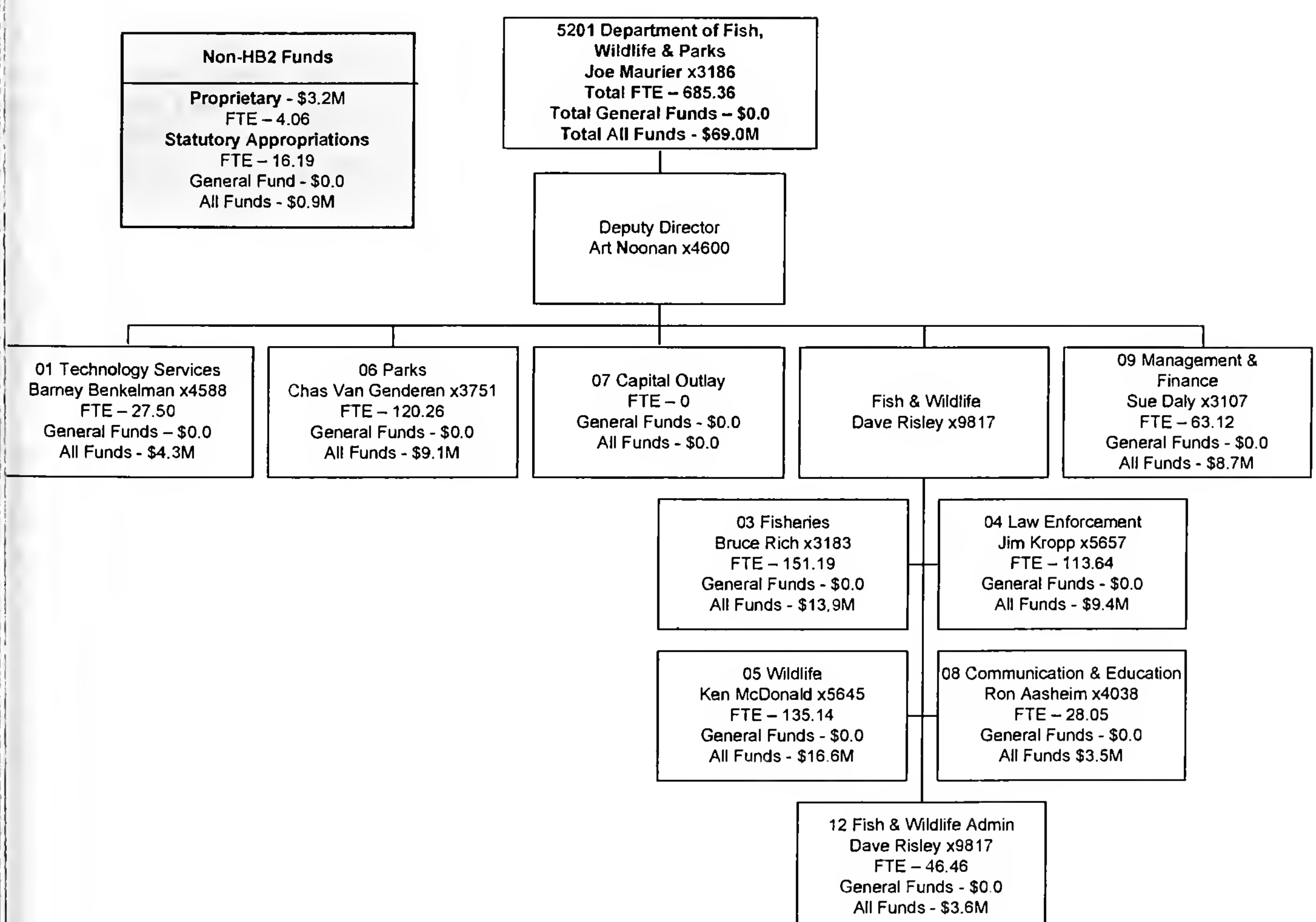
- ♦ Establishing Medicaid appropriations for the 2013 biennium has an inherent degree of risk because:
  - Medicaid services costs are a significant state expenditure (22% of total HB 2 appropriations) and small differences between actual expenditures and the projection can have major fiscal impacts
  - Executive budget cost trends used to project 2013 biennium costs are below national cost trends projected for Medicaid services
  - Small changes (1%) in the overall cost trend cause a $6.1 million change in state match required over the biennium based on the executive budget request
  - Small changes (1%) in the federal Medicaid match rate cause a $9.0 million change in the state match required for Medicaid services in FY 2013
- ♦ State special revenue dedicated to funding increased enrollment costs in HMK is $11.8 million too low to cover projected enrollment increases in the 2013 biennium
  - A portion of the state match for increased enrollment in HMK Medicaid services is paid from the general fund
- ♦ Several state special revenue accounts are over budgeted including:
  - Tobacco settlement funds by $8.2 million
  - Tobacco trust interest account by $1.0 million
- ♦ 5% reduction plan does not reduce general fund to the targeted amount
- ♦ The required $22.0 million DPHHS structural balance plan did not provide $3.9 million in reductions for consideration by the legislature

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	685.36	685.36	700.59	700.59	685.36	700.59	15.23	2.22%
Personal Services	38,501,079	39,712,978	40,945,437	40,953,889	78,214,057	81,899,326	3,685,269	4.71%
Operating Expenses	28,622,412	29,336,152	30,556,888	30,524,845	57,958,564	61,081,733	3,123,169	5.39%
Equipment & Intangible Assets	873,722	857,212	816,995	816,995	1,730,934	1,633,990	(96,944)	(5.60%)
Grants	952,105	985,521	975,986	975,986	1,937,626	1,951,972	14,346	0.74%
Benefits & Claims	4,823	4,850	4,823	4,823	9,673	9,646	(27)	(0.28%)
Transfers	58,869	99,652	99,652	99,652	158,521	199,304	40,783	25.73%
Total Costs	**$69,013,010**	**$70,996,365**	**$73,399,781**	**$73,376,190**	**$140,009,375**	**$146,775,971**	**$6,766,596**	**4.83%**
State Special	54,070,860	55,648,120	57,552,965	57,525,124	109,718,980	115,078,089	5,359,109	4.88%
Federal Special	14,942,150	15,348,245	15,846,816	15,851,066	30,290,395	31,697,882	1,407,487	4.65%
Other	0	0	0	0	0	0	0	n/a
Total Funds	**$69,013,010**	**$70,996,365**	**$73,399,781**	**$73,376,190**	**$140,009,375**	**$146,775,971**	**$6,766,596**	**4.83%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: Montana Fish, Wildlife & Parks, through its employees and citizen commission, provides for the stewardship of the fish, wildlife, parks, and recreational resources of Montana, while contributing to the quality of life for present and future generations.

Fish, Wildlife and Parks (FWP) is responsible for the management of Montana's fish, wildlife, parks, and recreational resources. The department is also responsible for a state park system that includes scenic, historical, cultural, and recreational resources. The operational programs are in eight divisions and seven regional field offices. The five-member Governor appointed FWP Commission provides policy direction on resource management, seasons, fees, and use of department lands.

The agency has four overarching goals:

- Create a work environment where priorities are clear; the decision-making process is efficient and effective; and where employees feel a sense of accountability, value, and satisfaction in their achievements and their contributions to the agency mission.
- Provide quality opportunities for public appreciation and enjoyment of fish, wildlife, and parks resources.
- Maintain and enhance the health of Montana's natural environment and the vitality of our fish, wildlife, cultural, and historic resources through the 21st century.
- Emphasize education, communication, and responsible behavior to afford citizens the opportunity to better understand and participate in the decision-making process that sustain our natural, recreational and cultural resources for future generations.

The department consists of three divisions with the following functions:

The Management & Finance Division provides for overall department direction regarding policy, planning, program development, accounting, purchasing, property management, legal, information technology, personnel, and budgeting. The licensing program and special drawings are also managed in this division. This division is responsible for 63.0 FTE and is funded from the general license account and a portion of the indirect cost assessments on federal grants and nonfederal accounts.

The Parks Division is responsible for providing diverse recreational opportunities while preserving the historical, archaeological, scientific, and cultural resources of the state. This includes the maintenance and administration of all state parks, affiliated lands, fishing access sites, and the snowmobile program. In the 2003 session the daily park user fees for Montana residents were eliminated in exchange for an optional $4 motor vehicle license fee. The fee provides significant revenue for the Parks Division. 120.26 FTE are dedicated to the Parks Division.

The Fish and Wildlife Division consists of six bureaus: communication and education, fisheries, wildlife, enforcement, strategic planning, and regional offices. The division oversees habitat and conservation practices for both fish and wildlife, enforcement of hunting and fishing regulations, hunter education, and production of regulations and implementation of department policies at the local level. Funding is primarily from the general license account and related federal funding. The division is operated with 502.10 FTE.

Agency Highlights

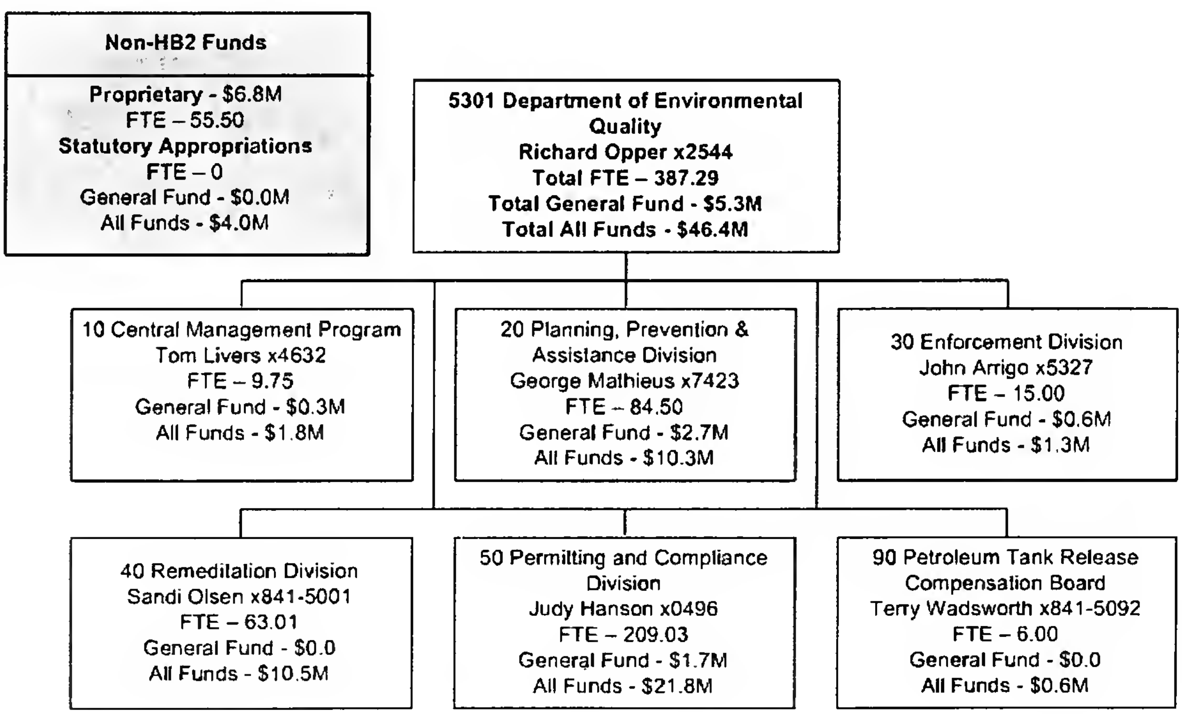
Department of Fish, Wildlife and Parks Major Budget Highlights
♦ The Governor proposes to increase this agency's budget by 4.8% from the previous biennium ♦ Major initiatives in the executive budget are: • Restoration of one-time-only appropriations • Elk management for brucellosis management • Provision of funds to operate the Montana Outdoor Discovery Center ♦ The department does not receive any general fund ♦ The majority of the budget requests are funded equally with state special and federal funds
Legislative Action Issues
♦ Major agency-wide LFD issues • Balance of the general license account is declining • There is a lack of balance between land acquisitions and land management ♦ Potential Items Requiring Implementing Legislation • Realignment of funding for acquisitions and land management through modification of the habitat Montana fund. • Adjustment of the $4.00 light vehicle registration fee to fund parks ♦ Proprietary Rate Decision • The legislature must approve rates for the vehicle fleet, aircraft operations, warehouse overhead, and the duplicating center ♦ Other Decision Factors • Voter Initiatives - The voters passed an initiative to eliminate outfitter sponsored combination licenses and replace them with an increased number of non-resident licenses. Revenues from the licenses are dedicated to hunting access programs ♦ Interim Committee Recommendations • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5% on general fund and state special revenue not statutorily exempt • The general license account is exempt from the 5% reduction

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	387.29	387.29	385.44	385.44	387.29	385.44	(1.85)	(0.48
Personal Services	24,209,977	26,271,153	26,925,740	26,937,192	50,481,130	53,862,932	3,381,802	6.7
Operating Expenses	20,595,563	30,561,107	28,907,252	28,877,279	51,156,670	57,784,531	6,627,861	12.9
Equipment & Intangible Assets	80,932	187,077	594,520	594,520	268,009	1,189,040	921,031	343.6
Capital Outlay	0	141,304	0	0	141,304	0	(141,304)	(100.00
Grants	1,473,211	2,040,916	1,791,808	1,806,461	3,514,127	3,598,269	84,142	2.3
Transfers	7,500	0	7,500	7,500	7,500	15,000	7,500	100.0
Total Costs	**$46,367,183**	**$59,201,557**	**$58,226,820**	**$58,222,952**	**$105,568,740**	**$116,449,772**	**$10,881,032**	**10.31**
General Fund	5,341,202	5,443,674	5,466,101	5,469,117	10,784,876	10,935,218	150,342	1.3
State Special	22,692,262	30,740,283	31,133,319	31,136,611	53,432,545	62,269,930	8,837,385	16.5
Federal Special	18,333,719	23,017,600	21,627,400	21,617,224	41,351,319	43,244,624	1,893,305	4.5
Total Funds	**$46,367,183**	**$59,201,557**	**$58,226,820**	**$58,222,952**	**$105,568,740**	**$116,449,772**	**$10,881,032**	**10.31**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: To protect, promote, and improve a clean and healthful environment to benefit present and future generations.

The department is responsible for regulating air quality, water quality, underground storage tanks, automobile wrecking facilities, hazardous waste facilities, solid waste management systems, and mining operations; and for the siting and needs analyses of large-scale energy facilities. In addition, the department is the lead agency for reclamation and cleanup

activities related to the federal and state superfund programs and leaking underground storage tanks; and regulation and permitting of mining conducted on private, state, and federal lands. This work is completed through five divisions - Central Management, Planning Prevention and Assistance, Enforcement, Remediation, and Permitting and Compliance. The Petroleum Tank Compensation Board is also attached for administrative purposes.

The department works in partnership with the federal Environmental Protection Agency (EPA). Congress gave the EPA the initial responsibility for development and implementation of environmental protection, but many federal statutes contain preference for delegation of the program to the states when the state can demonstrate capacity to carry it out. This arrangement establishes state-federal environmental goals and priorities with the funding and flexibility to achieve desired results. These joint activities become the basis of future agreements and long-term strategic planning. Given this unique relationship, the federal government dictates many of the department's activities.

Agency Highlights

Department of Environmental Quality
Major Budget Highlights

- The Governor proposes to increase this program's budget by 10.3% from the 2011 biennium
    - General fund increases by 1.4% due to operating adjustments and statewide present law adjustments, partially offset by personal services reductions
    - State special revenue increases by 16.5% due to operating adjustments and increased authority for remediation activities.
- Major initiatives in the executive budget are:
    - Restoration of the FY 2010 base that was low due to decreased revenues and vacant positions
    - Funds for orphan share and superfund cleanup activities
    - General fund personal services reductions

Legislative Action Issues

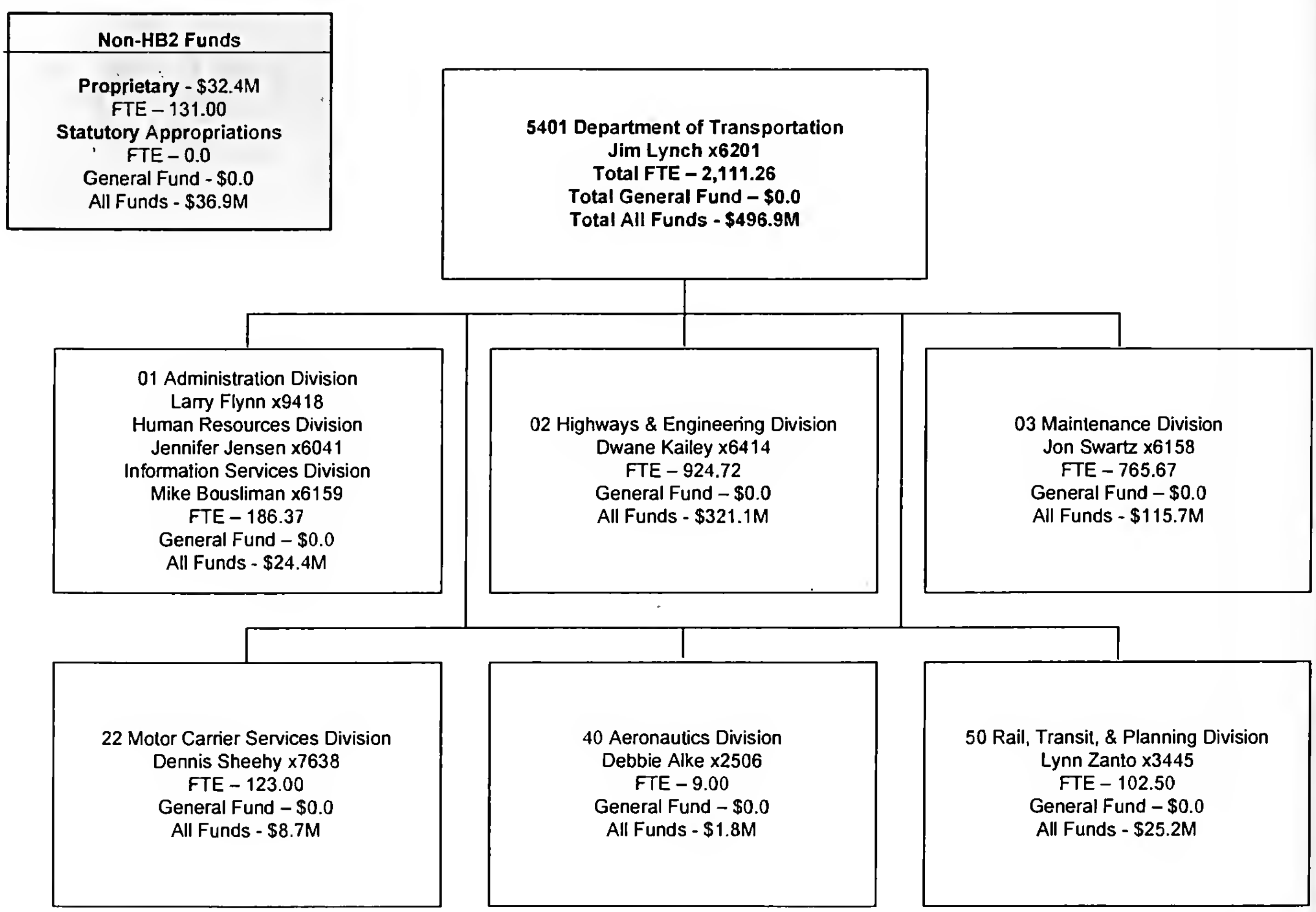
- Major/agency-wide issues
    - Present law adjustments to reestablish the base budget at FY 2010 levels total $9.4 million over the biennium
    - A number of state special revenue funds are being used for purposes not covered in statute
- Potential Legislation Items
    - Increase public water supply connection fees to offset general fund and inappropriately utilized state special revenue funds in the public water supply program.
    - Address the excess balance in the junk vehicle fund
    - Address the discrepancy in the allocation of metalliferous mines taxes
- Proprietary Rate Decisions
    - The legislature must approve rates for department indirect charges
- Interim Committee Recommendations
    - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	2,111.26	2,111.26	2,111.26	2,111.26	2,111.26	2,111.26	0.00	0.0
Personal Services	126,893,928	147,102,387	143,603,117	143,641,471	273,996,315	287,244,588	13,248,273	4.8
Operating Expenses	318,017,294	435,509,385	486,429,132	485,418,363	753,526,679	971,847,495	218,320,816	28.9
Equipment & Intangible Assets	2,974,142	3,027,679	2,987,467	2,974,142	6,001,821	5,961,609	(40,212)	(0.67
Capital Outlay	28,099,207	16,132,424	23,216,343	23,216,343	44,231,631	46,432,686	2,201,055	4.9
Grants	19,468,999	22,012,246	20,652,379	20,652,379	41,481,245	41,304,758	(176,487)	(0.43
Transfers	1,407,892	1,013,328	1,418,710	1,418,710	2,421,220	2,837,420	416,200	17.1
Total Costs	**$496,861,462**	**$624,797,449**	**$678,307,148**	**$677,321,408**	**$1,121,658,911**	**$1,355,628,556**	**$233,969,645**	**20.8**
General Fund	0	0	0	0	0	0	0	
State Special	199,536,189	258,100,949	262,436,600	262,091,900	457,637,138	524,528,500	66,891,362	14.6
Federal Special	297,325,273	366,696,500	415,870,548	415,229,508	664,021,773	831,100,056	167,078,283	25.1
Other	0	0	0	0	0	0	0	
Total Funds	**$496,861,462**	**$624,797,449**	**$678,307,148**	**$677,321,408**	**$1,121,658,911**	**$1,355,628,556**	**$233,969,645**	**20.8**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Department of Transportation is the agency responsible for administering the multimodal transportation network in Montana. The department plans, designs, builds, and maintains the statewide network of highways. It is responsible for collecting and distributing highway user fees and fuel taxes. The department enforces state and federal laws for commercial motor carriers and registers interstate fleet vehicles. The department also facilitates the operation and infrastructure of airports and airways in Montana, registers aircraft and pilots, and maintains several state-owned airports. The department represents Montana interests in railroad planning issues and supports local entities in overall transportation planning and transit assistance.

The Department of Transportation constructs and maintains the state highway infrastructure. The department also provides for the other aspects of a statewide multimodal transportation system through:

- Aeronautics safety protection and promotion
- General aviation airport planning, promotion, and maintenance facilitation
- Rail infrastructure coordination, monitoring, and planning
- Highway traffic safety promotion, planning, and administration
- Vehicle weight and dimension permitting and law enforcement
- Transit assistance

The five-member transportation commission, whose members are appointed by the Governor, establishes department priorities and apportions funding among the five state financial districts according to statutory guidelines, department recommendations, and community input. The nine-member Board of Aeronautics, whose members are appointed by the Governor, establishes priorities for department aeronautics activities.

The department provides the above services through the following programs:

- General Operations Program
- Construction Program
- Maintenance Program
- State Motor Pool (entirely funded with non-budgeted proprietary funds)
- Equipment Program (entirely funded with non-budgeted proprietary funds)
- Motor Carrier Services Division
- Aeronautics Program (a portion of this program is funded with non-budgeted proprietary funds)
- Rail, Transit, and Planning Division

Agency Highlights

Department of Transportation
Major Budget Highlights

- Total funds increase by $234.0 million or 20.9%,
- State special revenue increases by $67.0 million or 14.6%, and these increases are dominated by increases of:
  - $60.0 million for the 100% state funded construction program
  - $26.6 million to match increased federal funding for the federal-aid highway construction program
  - $20.2 million for statewide present law adjustments
  - $8.3 million for funding payments to the proprietary Equipment Program
- Federal special revenue increases by $167.1 million, or 25.1%, primarily because of increases of:
  - $234.2 million to increase federal-aid funding for highway construction contractor payments
  - $2.1 million to increase transit funding for assistance to local transit providers
  - $1.5 million of border enforcement grants associated with enforcement of commercial motor carriers around the border with Canada

Legislative Action Issues

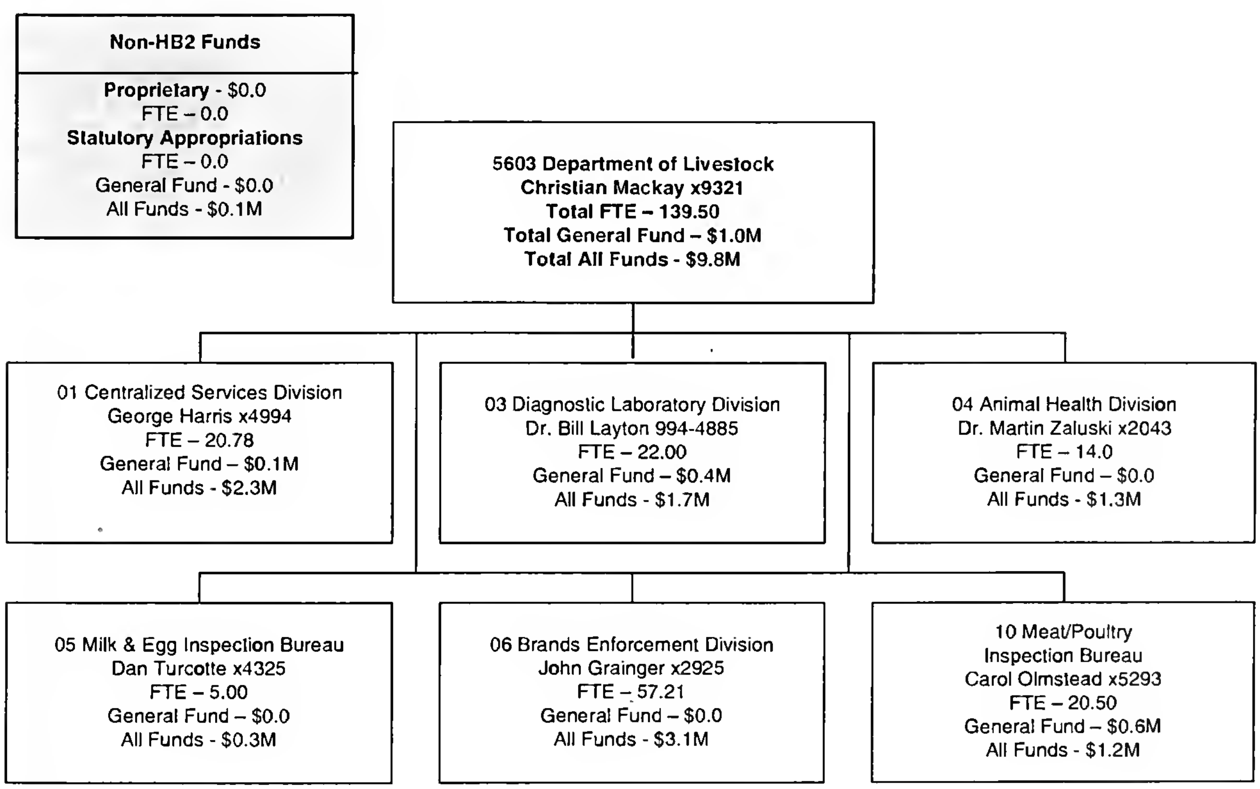
- Major/agency-wide LFD issues
  - The legislature will need to determine if the highway system improvements that may be achieved are worth the $60.0 million cost to increase the 100% state funded construction program
  - An alternative rate structure is available for consideration when approving rates for the Equipment Program
- Proprietary Rate Discussion
  - The legislature must approve rates for the State Motor Pool and Equipment Program
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base minus 5%
  - Highway state special revenue funds utilized by this agency are statutorily exempt from the 5% reduction plan requirement

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	139.50	139.50	144.50	142.76	139.50	142.76	3.26	2.34%
Personal Services	6,751,716	6,940,998	7,525,754	7,466,131	13,692,714	14,991,885	1,299,171	9.49%
Operating Expenses	2,896,569	3,033,416	3,894,041	3,876,469	5,929,985	7,770,510	1,840,525	31.04%
Equipment & Intangible Assets	47,689	70,052	273,191	235,441	117,741	508,632	390,891	331.99%
Benefits & Claims	140,000	450,000	290,000	140,000	590,000	430,000	(160,000)	(27.12%)
Total Costs	**$9,835,974**	**$10,494,466**	**$11,982,986**	**$11,718,041**	**$20,330,440**	**$23,701,027**	**$3,370,587**	**16.58%**
General Fund	1,046,160	1,111,118	1,576,480	1,426,602	2,157,278	3,003,082	845,804	39.21%
State Special	7,325,213	7,574,506	8,750,930	8,662,951	14,899,719	17,413,881	2,514,162	16.87%
Federal Special	1,464,601	1,808,842	1,655,576	1,628,488	3,273,443	3,284,064	10,621	0.32%
Total Funds	**$9,835,974**	**$10,494,466**	**$11,982,986**	**$11,718,041**	**$20,330,440**	**$23,701,027**	**$3,370,587**	**16.58%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: To control and eradicate animal diseases, prevent the transmission of animal diseases to humans, and to protect the livestock industry from theft and predatory animals.

The Department of Livestock is responsible for controlling and eradicating animal diseases; preventing the transmission of animal diseases to humans; protecting the livestock industry from theft and predatory animals; meat, milk, and egg inspection; and regulating the milk industry relative to producer pricing. The department, which is provided for in 2-15-3101, MCA, consists of the Board of Livestock and its appointed executive officer, the Livestock Crimestoppers Commission, the Milk Control Board, the Livestock Loss Reduction and Mitigation Board, and the Board of Horse Racing. The department is organized into four divisions: Animal Health; Centralized Services; Brand-Enforcement; Diagnostic Laboratory; and two bureaus: Milk and Egg Inspection and Meat and Poultry Inspection. The Board of Livestock, which is the statutory head of the Department of Livestock, consists of seven members appointed by the Governor and confirmed by the Senate to serve six-year terms.

Agency Highlights

Department of Livestock
Major Budget Highlights

- The Governor proposes to increase this agency's budget by 16.58% from the previous biennium
- Major initiatives in the executive budget are:
  - Funding brucellosis surveillance
  - Creating a new egg and milk screening program
- General fund increases by 39.2% primarily due to the brucellosis surveillance program offset by a personal services reduction
- State special revenue funds increase by 17% due to requests to increase expenditures from the per capita and animal health fund for various purposes
- Total increases include an additional 3.26 FTE, of which 1.50 are egg graders and the remainder are related to brucellosis surveillance activities

Legislative Action Issues

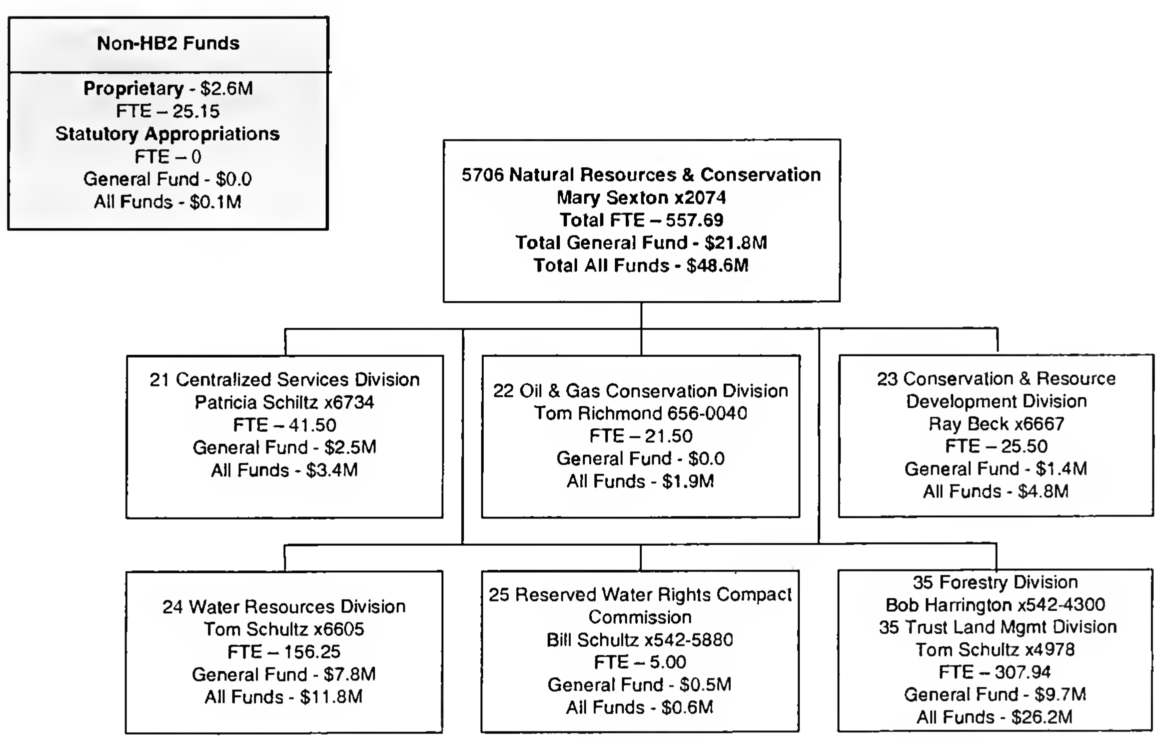
- Major/Agency Wide Issues
  - The Governor proposes to spend down the fund balance in the per capita fund and over spend the animal health fund.
  - The budget has one-time-only requests for vehicles that would be appropriate in the base budget
- Potential Bills to Implement HB 2
  - Establish per capita fees in statute
  - Separate the lab revenues and milk and egg revenues into two separate funds
  - Define the use of state special revenue funds
- Other Decision Factors
  - The Board of Livestock has set policy for the department to follow regarding fee increases and expenditures related to out of state travel; the legislature is not bound by these decisions
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%
  - State special revenue funds in this department are statutorily exempt from the requirement

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	557.69	557.69	545.44	545.44	557.69	545.44	(12.25)	(2.20%)
Personal Services	30,785,701	32,075,682	33,172,302	33,187,369	62,861,383	66,359,671	3,498,288	5.57%
Operating Expenses	13,570,700	14,810,173	15,007,359	15,032,295	28,380,873	30,039,654	1,658,781	5.84%
Equipment & Intangible Assets	1,096,462	1,361,495	945,497	945,497	2,457,957	1,890,994	(566,963)	(23.07%)
Capital Outlay	122,204	69,788	122,204	122,204	191,992	244,408	52,416	27.30%
Local Assistance	0	0	0	0	0	0	0	n/a
Grants	1,376,647	1,397,342	1,476,647	1,476,647	2,773,989	2,953,294	179,305	6.46%
Benefits & Claims	0	0	200,000	200,000	0	400,000	400,000	n/a
Transfers	1,218,390	1,228,444	1,274,250	1,269,339	2,446,834	2,543,589	96,755	3.95%
Debt Service	383,275	473,419	473,418	473,418	856,694	946,836	90,142	10.52%
Total Costs	**$48,553,379**	**$51,416,343**	**$52,671,677**	**$52,706,769**	**$99,969,722**	**$105,378,446**	**$5,408,724**	**5.41%**
General Fund	21,831,342	22,453,450	23,133,278	23,155,910	44,284,792	46,289,188	2,004,396	4.53%
State Special	24,837,687	26,886,999	27,487,205	27,495,450	51,724,686	54,982,655	3,257,969	6.30%
Federal Special	1,884,350	2,075,894	2,051,194	2,055,409	3,960,244	4,106,603	146,359	3.70%
Total Funds	**$48,553,379**	**$51,416,343**	**$52,671,677**	**$52,706,769**	**$99,969,722**	**$105,378,446**	**$5,408,724**	**5.41%**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission: To help ensure Montana's land and water resources provide benefits for present and future generations.

The department is responsible for managing state trust land; protecting Montana's natural resources from wildfire; promoting stewardship of state water, soil, forest, and rangeland resources; providing assistance to the conservation districts; providing natural resource conservation education; and providing support to the Reserved Water Rights Compact Commission and the Board of Oil and Gas Conservation.

The department consists of seven divisions with the following functions:

The Centralized Services Division (41.5 FTE) provides management and administrative services for the department. This includes such activities as accounting, budgeting human resources, department leadership, and legal services.

The Oil and Gas Conservation Division (21.5 FTE) is responsible for programs operated for the prevention of resource waste through regulation of oil and gas exploration and production. This division supports the quasi-judicial Board of Oil and Gas that is charged with regulation of the industry.

The Conservation and Resources Development Division (25.5 FTE) provides administrative, legal, and technical assistance and financial grants to the conservation districts and manages natural resource conservation and development grant and loan programs for local governments, state agencies, and private individuals.

The Water Resource Division (156.25 FTE) is responsible for the administration of all water use within the state, including: maintaining the database for all water rights, managing state water projects, investigating water use violations, ensuring dam safety compliance, and providing water adjudication support to the Water Court

The staff of the Reserved Water Rights Compact Commission (5.0 FTE) provide administrative and technical support to the members of the commission who are charged with negotiating water rights claims of Indian Tribes and federal agencies which claim federal reserved water rights within the state, to establish an out of court settlement regarding the amount of water to be allocated to each interest.

The Forestry Division (170.28 FTE) is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting Montana's natural resources from wildfire; regulating forest practices, providing a variety of services to private forest landowners, enforcing streamside management zone regulations; administering Montana's Fire Hazard Reduction Law; providing technical forestry assistance to private landowners, businesses, and communities; and growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana.

The Trust Land Management division (137.66) is responsible for the management of the state trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land This work is done under the direction of the Board of Land Commissioners (land board comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State), who are constitutionally charged to oversee trust resources. The department director is the chief administrative officer of the board.

Agency Highlights

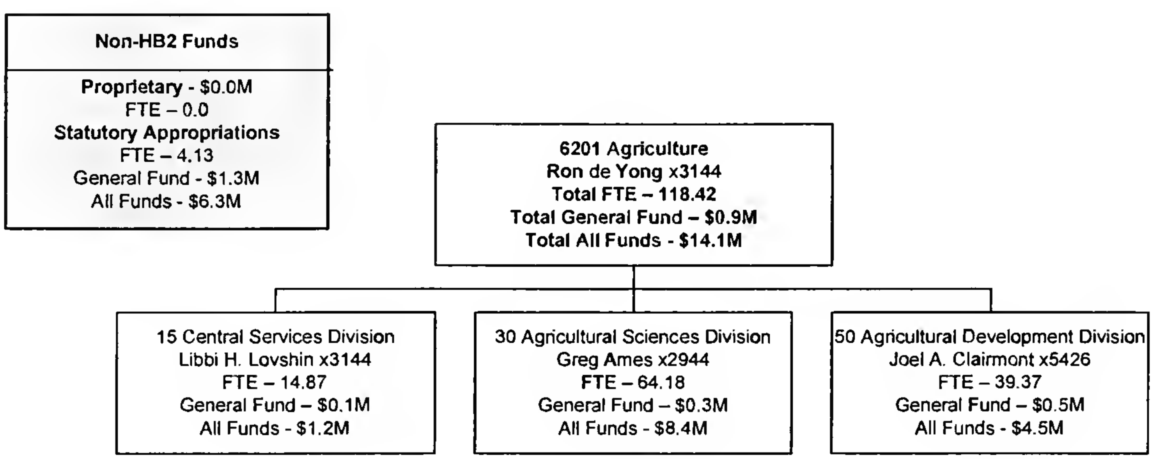
Department of Natural Resources and Conservation Major Budget Highlights
♦ The Governor proposes to increase this agency's budget by 5.4% from the previous biennium ♦ General fund increases by 4.5% primarily due to statewide present law adjustments. ♦ State special revenue increases by 6.3% primarily due to increases for conservation districts and statewide present law adjustments. ♦ Major initiatives in the executive budget are: • General fund personal services reductions totaling $1.3 million and 8.7 FTE • Transfer of 3.5 FTE to the water court
Legislative Action Issues
♦ Major LFD Issues • The FTE transfer to the Water Court is inadequately funded • The water adjudication fund has an inadequate balance to fund the water adjudication process through FY 2020. • Reductions to the Forestry Division could lead to a decrease in the initial attack success rate and increase fire suppression costs. ♦ Potential Legislation • The Oil and Gas ERA fund has an excess balance of $15.0 million that could be transferred to the general fund • The funding formula for Conservation Districts needs further examination ♦ Proprietary rates for the Air Operations Program need to be approved ♦ Other Decision Factors • The Reserved Water Rights Compact Commission sunsets on July 1, 2013, so a decision regarding an implementation bureau needs to be made. ♦ Interim Committee Recommendations • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	118.42	118.42	120.40	120.40	118.42	120.40	1.98	1.6
Personal Services	5,875,640	6,460,622	6,633,482	6,629,316	12,336,262	13,262,798	926,536	7.5
Operating Expenses	3,092,278	3,738,378	3,471,749	3,436,902	6,830,656	6,908,651	77,995	1.1
Equipment & Intangible Assets	375,624	287,276	1,032,624	377,624	662,900	1,410,248	747,348	112.7
Grants	4,383,401	5,968,385	4,524,401	4,524,401	10,351,786	9,048,802	(1,302,984)	(12.5
Benefits & Claims	0	0	0	0	0	0	0	
Transfers	326,489	280,000	396,489	396,489	606,489	792,978	186,489	30.7
Debt Service	0	2,281	0	0	2,281	0	(2,281)	(100.0
Total Costs	**$14,053,432**	**$16,736,942**	**$16,058,745**	**$15,364,732**	**$30,790,374**	**$31,423,477**	**$633,103**	**2.0**
General Fund	880,007	1,020,580	1,324,381	1,276,028	1,900,587	2,600,409	699,822	36.8
State Special	10,561,977	12,708,587	12,063,972	11,413,251	23,270,564	23,477,223	206,659	0.8
Federal Special	2,111,490	2,390,235	2,098,452	2,099,165	4,501,725	4,197,617	(304,108)	(6.7
Other	499,958	617,540	571,940	576,288	1,117,498	1,148,228	30,730	2.7
Total Funds	**$14,053,432**	**$16,736,942**	**$16,058,745**	**$15,364,732**	**$30,790,374**	**$31,423,477**	**$633,103**	**2.0**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: The mission of the Montana Department of Agriculture is to protect producers and consumers, and to enhance and develop agriculture and allied industries.

The Department of Agriculture, required by Article XII, Section 1, of the Montana Constitution, was established to encourage and promote the interests of agricultural and allied industries in Montana. To this end, the department:

- Strengthens and diversifies the Montana agriculture industry through private-public partnerships
- Collects and publishes agricultural production and marketing statistics relating to agricultural products
- Assists, encourages, and promotes the organization of farmers institutes, agricultural societies, fairs, and other exhibitions of agriculture
- Adopts standards for grade and other classifications of farm products
- Coordinates the planning and maintenance of economical and efficient marketing distribution systems
- Gathers and distributes marketing information concerning supply, demand, price, and movement of farm

products
- o Regulates production and marketing of food and fiber products
- o Registers pesticides and fertilizers and enforces laws pertaining to them

Agency Highlights

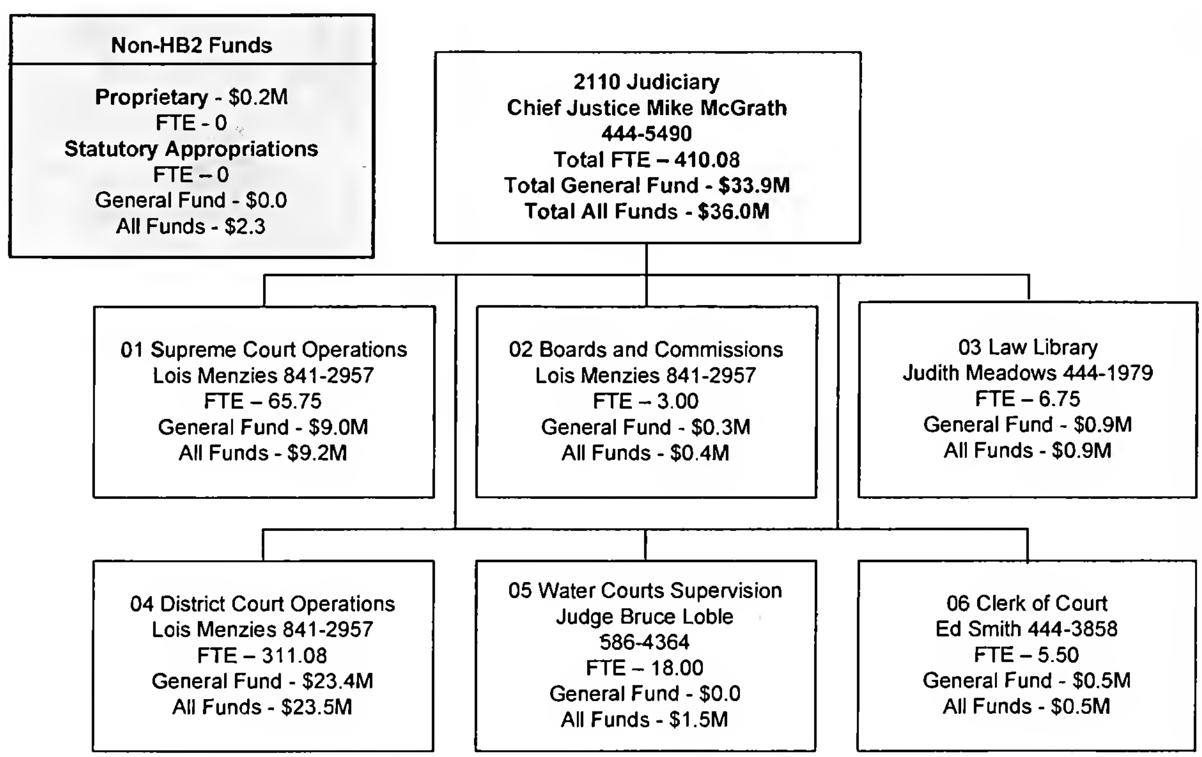
Department of Agriculture Major Budget Highlights
♦ The executive's proposed budget increases by 2.06% over the previous biennium. Major items contributing to this increase include: • Equipment purchases of $655,000 for testing and web-based agriculture product registration • Requested base budget adjustments totaling just over $0.5 million • One-time-only funding request of $667,000 for invasive species activities ♦ The executive proposal includes the addition of a 2.6 FTE recycling truck driver funded entirely from federal funds • A part-time recycling truck driver • 2.0 FTE for invasive species management ♦ A proposed 4% personal services reduction in general funded personal services moves one position from full time to part time resulting in a general fund savings of $55,558 over the biennium ♦ Funding for grants decreases by $902,984 primarily due to a temporary reduction in coal severance tax distributions to the Growth Through Agriculture program ♦ A 5% reduction plan was submitted by the executive that includes the 4% personal services reduction in the proposed budget and $70,238 in operating expenditure reductions that would result in a 1.5% reduction in general fund and 0.2% reduction in overall funding for the agency
Legislative Action Issues
The request to fund the invasive species program lacks details ♦ Invasive Species OTO ♦ Budgeted expenditures for legislative audit are funded entirely from the general fund instead of being allocated across all funding sources ♦ Requested $592,150 base budget adjustment for operating expenses did not include adequate justification

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	410.08	410.08	419.58	422.24	410.08	422.24	12.16	2.9
Personal Services	27,508,677	28,995,376	30,834,085	31,106,595	56,504,053	61,940,680	5,436,627	9.
Operating Expenses	8,319,831	8,744,097	8,346,360	8,335,637	17,063,928	16,681,997	(381,931)	(2.2
Equipment & Intangible Assets	142,165	128,663	142,165	142,165	270,828	284,330	13,502	4.9
Grants	0	0	0	0	0	0	0	
Benefits & Claims	0	0	0	0	0	0	0	
Transfers	0	0	0	0	0	0	0	
Debt Service	11,651	30,354	11,651	11,651	42,005	23,302	(18,703)	(44.5
Total Costs	**$35,982,324**	**$37,898,490**	**$39,334,261**	**$39,596,048**	**$73,880,814**	**$78,930,309**	**$5,049,495**	**6.8**
General Fund	33,937,675	35,467,158	36,952,194	37,020,776	69,404,833	73,972,970	4,568,137	6.
State Special	1,922,472	2,305,683	2,259,135	2,452,283	4,228,155	4,711,418	483,263	11.4
Federal Special	122,177	125,649	122,932	122,989	247,826	245,921	(1,905)	(0.7
Total Funds	**$35,982,324**	**$37,898,490**	**$39,334,261**	**$39,596,048**	**$73,880,814**	**$78,930,309**	**$5,049,495**	**6.8**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD t include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agenc proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: The Judicial Branch's mission is to provide an independent, accessible, responsive, impartial an timely forum to resolve disputes; to preserve the rule of law; and to protect the rights and liberties guaranteed by th Constitutions of the United States and Montana.

Article III, Section I, and Article VII of the Montana Constitution authorizes the Judicial Branch. There are six programs within the branch: 1) Supreme Court Operations; 2) Boards and Commissions; 3) Law Library; 4) District Court Operations; 5) Water Court Supervision; and 6) Clerk of the Supreme Court.

Agency Highlights

Judicial Branch Major Budget Highlights

- ♦ Funding for the Judicial Branch increases 6.8% ($5.0 million) when the 2011 and 2013 biennia are compared
  - General fund support for the branch increases 6.6% ($4.6 million) when the two biennia are compared
- ♦ The biennial difference is primarily due to the following:
  - No vacancy savings (2% in previous biennium) is applied to the 2013 biennium budget
  - Additional judges added by the 2009 Legislature (three) are funded for the entire biennium rather than six months
  - Funding for the court help program (formerly self-help) is included in the 2013 biennium
  - A portion of the increase in statewide present law adjustments is to replace the use of one-time-only carry forward funds in the base budget year

Legislative Action Issues

- ♦ Vacancy savings has not been applied to the Judicial Branch
- ♦ Two items included in the branch's voluntary reductions in April 2010 (consistent with reductions ordered by the Governor per 17-7-140, MCA) require statutory changes
- ♦ Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base less the agency 5% reduction plan

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	19.50	19.50	20.00	20.00	19.50	20.00	0.50	2.5
Personal Services	1,209,250	1,272,528	1,301,458	1,301,935	2,481,778	2,603,393	121,615	4.9
Operating Expenses	711,072	768,164	831,876	807,256	1,479,236	1,639,132	159,896	10.81
Equipment & Intangible Assets	13,042	0	13,042	13,042	13,042	26,084	13,042	100.0
Grants	3,548,184	13,675,531	5,948,992	5,904,669	17,223,715	11,853,661	(5,370,054)	(31.18
Transfers	531,723	1,218,134	1,204,639	1,204,639	1,749,857	2,409,278	659,421	37.6
Total Costs	**$6,013,271**	**$16,934,357**	**$9,300,007**	**$9,231,541**	**$22,947,628**	**$18,531,548**	**($4,416,080)**	**(19.24**
General Fund	2,351,300	2,386,384	2,456,750	2,384,634	4,737,684	4,841,384	103,700	2.1
State Special	37,595	291,808	152,736	152,736	329,403	305,472	(23,931)	(7.26
Federal Special	3,624,376	14,256,165	6,690,521	6,694,171	17,880,541	13,384,692	(4,495,849)	(25.14
Total Funds	**$6,013,271**	**$16,934,357**	**$9,300,007**	**$9,231,541**	**$22,947,628**	**$18,531,548**	**($4,416,080)**	**(19.24**

Agency Description

Mission Statement: To pro-actively contribute to public safety, crime prevention, and victim assistance with planning, policy development, and coordination of the justice systems in partnership with citizens, government, and communities.

The Montana Board of Crime Control (MBCC) was established to promote public safety by strengthening the coordination and performance of the criminal and juvenile justice systems. The MBCC is an 18-member board appointed by the Governor. The MBCC supervises the Crime Control Division (CCD), which provides financial support, technical assistance, and support services to state and local criminal justice agencies. The CCD administers a number of federal grants including anti-drug, anti-crime, victim assistance, and juvenile justice programs. The MBCC administers contracts with regional juvenile detention centers that are supported by state general fund and the misdemeanor domestic violence program supported by state special revenue. The MBCC also collects and analyzes crime data from Montana's law enforcement agencies and publishes the annual "Crime in Montana" report. MBCC is established in 2-15-2006, MCA.

The MBCC has one advisory council, the Youth Justice Council (YJC). YJC develops and implements the state's juvenile justice plan and recommends educational, training, research, prevention, diversion, treatment and rehabilitation programs.

Agency Highlights

Montana Board of Crime Control
Major Budget Highlights

- General fund support for the agency increases 2.2% ($103,700) when the two biennia are compared
  - Increases in general fund support due to statewide present law adjustments are offset by decreases in other present law adjustments
- Total funding for the agency decreases between the two biennia due to changes in federal funding levels

Legislative Action Issues

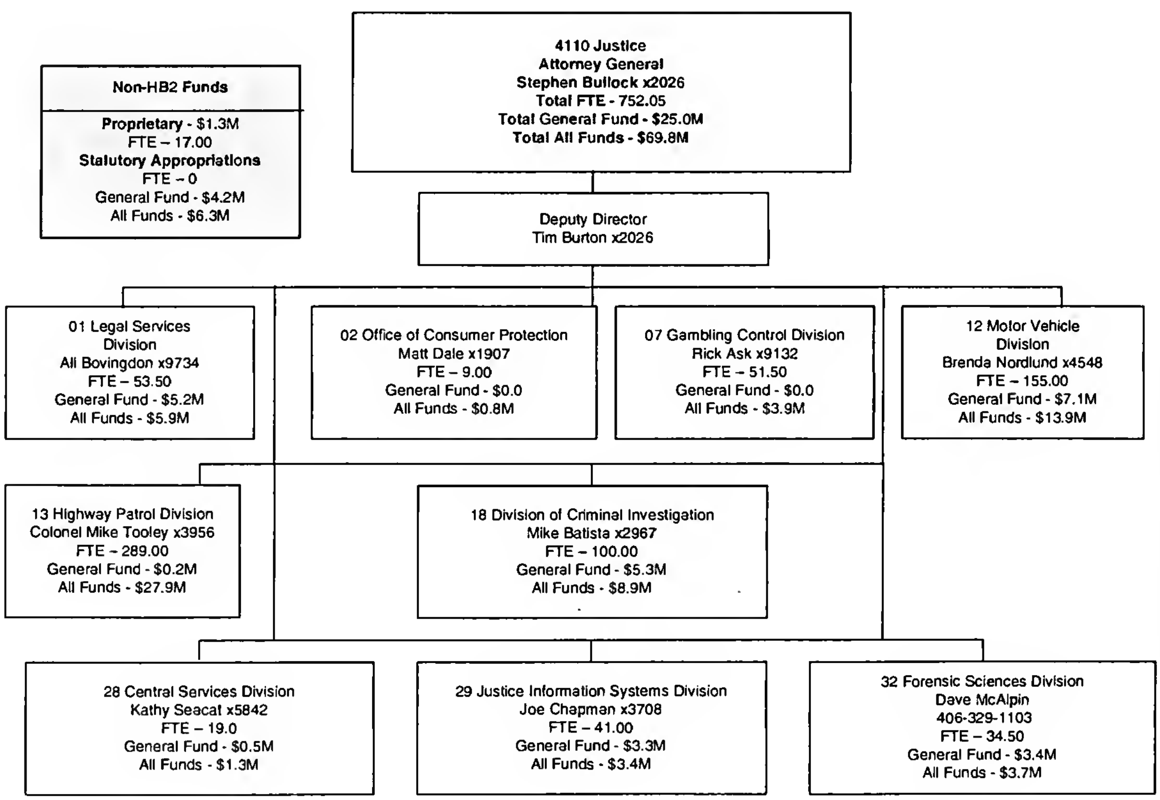
- Ongoing funding (federal) is requested for a 0.50 FTE that was funded with a one-time-only appropriation for the past two biennia
- Reductions made in accordance with 17-7-140, MCA do not reduce the agency base budget

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source o funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	752.05	752.05	752.89	752.85	752.05	752.85	0.80	0.1
Personal Services	45,224,471	45,355,993	49,643,781	49,683,628	90,580,464	99,327,409	8,746,945	9.6
Operating Expenses	20,867,277	25,904,682	28,638,924	27,989,642	46,771,959	56,628,566	9,856,607	21.0
Equipment & Intangible Assets	1,995,547	2,111,490	2,265,547	2,265,547	4,107,037	4,531,094	424,057	10.3
Benefits & Claims	1,011,704	1,868,328	1,261,704	1,261,704	2,880,032	2,523,408	(356,624)	(12.38
Transfers	0	0	0	0	0	0	0	
Debt Service	674,549	2,348,703	2,524,549	2,524,549	3,023,252	5,049,098	2,025,846	67.0
Total Costs	**$69,773,548**	**$77,589,196**	**$84,334,505**	**$83,725,070**	**$147,362,744**	**$168,059,575**	**$20,696,831**	**14.0**
General Fund	24,957,152	25,938,858	27,391,940	27,391,113	50,896,010	54,783,053	3,887,043	7.6
State Special	41,651,649	48,102,143	50,986,728	50,729,737	89,753,792	101,716,465	11,962,673	13.3
Federal Special	1,405,530	1,760,313	1,492,068	1,493,495	3,165,843	2,985,563	(180,280)	(5.69
Other	0	0	2,250,000	2,250,000	0	4,500,000	4,500,000	
Other	1,759,217	1,787,882	2,213,769	1,860,725	3,547,099	4,074,494	527,395	14.8
Total Funds	**$69,773,548**	**$77,589,196**	**$84,334,505**	**$83,725,070**	**$147,362,744**	**$168,059,575**	**$20,696,831**	**14.0**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Department of Justice, under the direction of the Attorney General, is responsible for statewide legal services and counsel, law enforcement, and public safety. The department:

- o Provides legal representation for the state and its political subdivisions in criminal appeals
- o Provides legal services and counsel for the state, county, and municipal agencies and their officials
- o Enforces Montana traffic laws and registers all motor vehicles
- o Enforces state fire safety codes and regulations
- o Assists local law enforcement agencies in bringing offenders to justice
- o Provides criminal justice officers and other qualified individuals with basic and specialized training in the field of law enforcement
- o Manages a statewide system of death investigations
- o Provides scientific analyses of specimens submitted by law enforcement officials, coroners, and state agencies
- o Maintains and disseminates criminal justice information to authorized state, local, and other entities
- o Provides uniform regulation of all gambling activities in the state of Montana
- o Enforces consumer protection laws and regulations relating to unfair and deceptive business practices
- o Assists Montana consumers in making sound decisions by providing public outreach
- o Provides statewide leadership on issues related to victims of crime and administers the Crime Victims Compensation program

Agency Highlights

Department of Justice
Major Budget Highlights

- ♦ Funding for the department increases 14.0% ($20.7 million) between the two biennia
    - • More than one half of the increase ($12.0 million) is related to increases in state special revenue
- ♦ State special revenue increases 13.3% ($12.0 million) between the two biennia due to:
    - • Statewide present law adjustments
    - • Debt payments for information technology projects ($6.6 million)
    - • Funding for the new insurance verification system ($1.8 million)
    - • Funding increase for the Criminal Justice Information System (CJIS) $1.1 million
- ♦ General fund support for the department increases 7.6% ($3.9 million) between the two biennia primarily due to statewide present law adjustments

Legislative Action Issues

- Major LFD Issues
  - Montana Enhanced Registration and Licensing Information Network (MERLIN) titling and registration implementation difficulties including: titling and registration work backlogs, printer malfunctions, help desk response time, system response time, and allocation of revenue on the accounting system
  - The Montana Law Enforcement Academy (MLEA) state special revenue fund does not have sufficient income to support expenses
  - The legislature may wish to consider transferring funds from the consumer settlement proceeds and highway patrol recruitment and retention accounts to the general fund
  - The executive budget does not use the highway patrol recruitment and retention fund to support the entire costs of additional troopers
  - The impacts of personal services reductions cannot be determined because the positions included in the personal services reduction are not specified
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	39.00	39.00	40.00	40.00	39.00	40.00	1.00	2.56%
Personal Services	2,866,511	3,092,742	3,045,532	3,007,785	5,959,253	6,053,317	94,064	1.58%
Operating Expenses	573,095	596,398	652,331	639,229	1,169,493	1,291,560	122,067	10.44%
Debt Service	6,080	6,080	6,080	6,080	12,160	12,160	0	0.00%
Total Costs	**$3,445,686**	**$3,695,220**	**$3,703,943**	**$3,653,094**	**$7,140,906**	**$7,357,037**	**$216,131**	**3.03%**
State Special	3,420,213	3,669,577	3,597,432	3,547,660	7,089,790	7,145,092	55,302	0.78%
Federal Special	25,473	25,643	106,511	105,434	51,116	211,945	160,829	314.64%
Total Funds	**$3,445,686**	**$3,695,220**	**$3,703,943**	**$3,653,094**	**$7,140,906**	**$7,357,037**	**$216,131**	**3.03%**

Agency Description

Mission Statement: To fairly balance the long-term interests of Montana utility and transportation companies and the customers they serve.

The Department of Public Service Regulation (PSR) regulates the operations of public utility and transportation industries that operate in the state. Five commissioners, elected from districts throughout Montana, form the Montana Public Service Commission (PSC) that oversees the Public Service Regulation Program (PSR). Each commissioner serves a four-year term.

Agency Highlights

Public Service Regulation
Major Budget Highlights

- The agency budget increases less than 1% between the 2011 and 2013 biennia
- Present law adjustments are the only adjustments to the agency budget and increase the agency budget by $465,665 total funds
- Funding for the agency comes primarily from state special revenue derived from a tax on regulated entities

Legislative Action Issues

- The agency 5% reduction plan lacks sufficient detail to enable the legislature to evaluate potential impacts of the reductions
- A request for computer equipment does not reflect a change in state policy changing from a four year replacement cycle to a five year replacement cycle
- Interim committee recommendation
    - The Legislative Finance Committee recommends that the budget starting point be the adjusted base less 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	200.50	200.50	216.50	216.50	200.50	216.50	16.00	7.9
Personal Services	11,912,040	11,553,705	13,499,779	13,485,337	23,465,745	26,985,116	3,519,371	15.0
Operating Expenses	7,959,536	7,938,224	8,265,055	8,212,813	15,897,760	16,477,868	580,108	3.6
Equipment & Intangible Assets	21,118	123,370	80,396	72,895	144,488	153,291	8,803	6.0
Total Costs	**$19,892,694**	**$19,615,299**	**$21,845,230**	**$21,771,045**	**$39,507,993**	**$43,616,275**	**$4,108,282**	**10.4**
General Fund	19,849,276	19,571,843	21,707,345	21,661,333	39,421,119	43,368,678	3,947,559	10.0
State Special	43,418	43,456	137,885	109,712	86,874	247,597	160,723	185.0
Federal Special	0	0	0	0	0	0	0	
Total Funds	**$19,892,694**	**$19,615,299**	**$21,845,230**	**$21,771,045**	**$39,507,993**	**$43,616,275**	**$4,108,282**	**10.4**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.

6108 Office of Public Defender
Randi M. Hood 496-6082
Total FTE – 200.50
Total General Funds $19.8M
Total All Funds - $19.9M

01 Public Defender Program
Randi M. Hood 496-6082
FTE – 191.50
General Funds - $19.0M
All Funds - $19.0M

02 Appellate Defender Program
Joslyn Hunt 444-0393
FTE – 9.00
General Funds - $0.9M
All Funds - $0.9M

Agency Description

Mission Statement - The mission of the Office of the State Public Defender (OPD) is to ensure equal access to justice for the state's indigent. The statewide public defender system, created by passage of the Montana Public Defender Act contained in Title 47, MCA, required the new system to be operational by July 1, 2006. The Public Defender Commission is responsible for the design, direction, and supervision of the new system. The commission appoints the chief public defender, approves the strategic plan for the delivery of services, approves statewide standards for qualifications and training of public defenders, and approves the overall design of the statewide system.

The Office of State Public Defender administers the statewide public defender system and delivers public defender services in all courts in Montana for criminal and certain civil cases for an individual who is determined to be indigent per statutory provisions and is accused of an offense that could result in the person's loss of life or liberty if convicted. The statewide public defender system is supervised by the Public Defender Commission, an eleven member commission appointed by the Governor. The office is administratively attached to the Department of Administration with the exception of some functions as provided in statute (2-15-1028, MCA). The statewide public defender system also includes appellate defender functions.

Agency Highlights

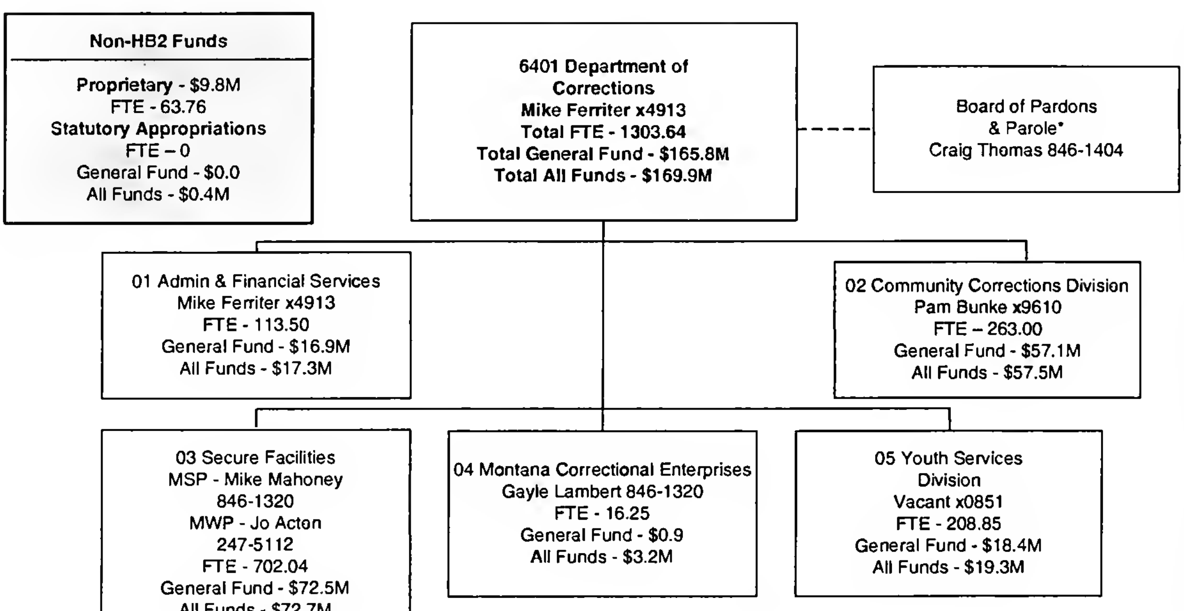
Office of State Public Defender Major Budget Highlights
◆ The general fund biennial increase for the agency is 10.0% or $3.9 million When the executive request for the 2013 biennium is compared to the 2011 biennium appropriation level the increase is 7.8% or $3.4 million, as the agency transferred funding from FY 2011 to FY 2010 and these funds were removed from actual FY 2010 expenditures in the main table • The general fund increase is split among statewide present law adjustments ($1.4 million), present law adjustments ($1.6 million and 10.00 FTE) and new proposals ($0.6 million and 5.00 FTE) ◆ The agency requests 15.00 FTE supported by general fund for current caseloads, to reduce manager's caseloads, and for records management; and 1.00 FTE, accounts receivable technician funded from state special revenue
Legislative Action Issues
◆ Major LFD Issues • FY 2009 and FY 2010 caseload data were extracted using two different methodologies. Due to these data inconsistencies it cannot be used for trend analysis • The agency plans to request a supplemental appropriation of $850,000 general fund • The public defender program's case weighting system, while consistent with nationally recommended standards, is not based upon objective analysis of statistical data • Agency data supporting the request for 4.00 FTE to reduce manager's caseload does not clearly indicate the relationship between current caseloads, the request, and agency policy ◆ Interim Committee Recommendations • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	1,303.64	1,303.64	1,289.14	1,289.14	1,303.64	1,289.14	(14.50)	(1.11)
Personal Services	69,610,880	72,382,475	71,275,144	71,298,642	141,993,355	142,573,786	580,431	0.41
Operating Expenses	93,944,707	95,303,055	101,832,252	107,276,335	189,247,762	209,108,587	19,860,825	10.49
Equipment & Intangible Assets	201,078	207,507	687,078	245,078	408,585	932,156	523,571	128.14
Benefits & Claims	3,343,082	4,055,855	3,343,082	3,343,082	7,398,937	6,686,164	(712,773)	(9.63)
Transfers	2,848,950	2,124,917	2,848,950	2,848,950	4,973,867	5,697,900	724,033	14.56
Total Costs	**$169,948,697**	**$174,073,809**	**$179,986,506**	**$185,012,087**	**$344,022,506**	**$364,998,593**	**$20,976,087**	**6.10**
General Fund	165,758,162	169,198,753	175,317,022	180,351,473	334,956,915	355,668,495	20,711,580	6.18
State Special	3,561,540	4,086,930	3,959,153	3,950,588	7,648,470	7,909,741	261,271	3.42
Federal Special	20,872	134,068	20,872	20,872	154,940	41,744	(113,196)	(73.06)
Other	608,123	654,058	689,459	689,154	1,262,181	1,378,613	116,432	9.22
Total Funds	**$169,948,697**	**$174,073,809**	**$179,986,506**	**$185,012,087**	**$344,022,506**	**$364,998,593**	**$20,976,087**	**6.10**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



*Supporting FTE included in administration

Agency Description

Mission - The Montana Department of Corrections enhances public safety, promotes positive change in offender behavior, reintegrates offenders into the community, and supports victims of crime.

The Department of Corrections (DOC), authorized in section 2-15-2301, MCA, is directed in section 53-1-201, MCA, to "utilize at maximum efficiency the resources of state government in a coordinated effort to: 1) develop and maintain comprehensive services and programs in the field of adult and youth corrections; and 2) provide for the care, protection, and mental and physical development of youth alleged to be youth in need of supervision, or delinquent youth who are referred or committed to the department." The department's five programs are:

- Administration and support services including the Director's Office, Health Services, Information Technology Services, Human Resources Division, Administrative and Financial Services Division, and the administratively attached Board of Pardons and Parole
- Community Corrections Division including division administration; Treasure State Correctional Treatment Center (TSCTC); contracted pre-release centers, probation and parole; DUI Unit (Warm Springs Addictions Treatment and Change Program (WATCh)); Elkhorn and Nexus methamphetamine treatment centers, Missoula Assessment and Sanction Center (MASC); and the Sanction, Treatment, Assessment, Revocation, and Transition Center (START)
- Secure Custody including Montana State Prison (MSP), Montana Women's Prison (MWP), contract beds including regional prisons in Great Falls and Glendive, and a privately operated prison (Crossroads Correctional Center) in Shelby
- Montana Correctional Enterprises (MCE) including agriculture, ranching, industries, vocational education, food factory, license plate factory, fire crew, lumber processing, and inmate canteen
- Youth Services Division including statewide juvenile community corrections functions, Riverside Youth Correctional Facility, the Transition Center, and Pine Hills Youth Correctional Facility

Agency Highlights

Department of Corrections
Major Budget Highlights

- Total funding for the department increases 6.1% or $21 million
  - General fund support increases 6.2% or $20.7 million primarily due to present law adjustment related to population increases, including $10.1 million for additional community corrections beds mostly in prerelease settings and $12.3 million for 164 additional prison beds and operating increases at state institutions
  - 6.00 FTE would be added for correctional officers at MWP (2.00 FTE funded by a reduction in overtime), mental health technicians at MSP (3.00 FTE), and the inmate canteen (1.00 FTE)
  - New proposal requests for equipment are offset by a 4% reduction in personal services that would eliminate 20.50 FTE positions
- The department estimates that the Average Daily Population (ADP) of offenders will increase:
  - 3.1% per year in male prison beds
  - 4.9% per year in alternatives to prison
  - 3.1% per year in prerelease
  - 1.9% per year in total

Legislative Action Issues
♦ Major LFD Issues • The executive budget does not fund sufficient bed increases to house the projected increase in ADP • The departments population estimate maintains the 80/20 ratio of offenders supervised in community options verses prison • The positions included in the 4% personal services reduction have not been specified making it difficult to determine the potential impact of these reductions • The executive budget may not provide an adequate level of system capacity to facilitate maintenance of the offender classification system and movement of offenders ♦ Interim Committee Recommendations • The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base less the agency 5% reduction plan

Proposed (Unified Budget) Budget

The following table summarizes the executive proposed table by agency and funding source.

Unified Budget	Base FY 2010	Approp. FY 2011	Exec. Request FY 2012	Exec. Request FY 2013	Biennium FY 10 - 11	Biennium FY 12 -13	Biennium $ Change	Biennium % Change
Full Time Equivalent (FTE)	461.16	461.16	446.93	446.93	461.16	446.93	(14.23)	-3.09%
3501 Office of Public Instruction	721,810,430	896,204,525	852,668,705	861,439,301	1,618,014,955	1,714,108,006	96,093,051	5.94%
5101 Board of Public Education	384,383	413,221	400,937	406,707	797,604	807,644	10,040	1.26%
5102 Commissioner of Higher Educatioı	240,230,561	264,902,841	266,519,723	276,050,842	505,133,402	542,570,565	37,437,163	7.41%
5113 School for the Deaf & Blind	6,278,484	6,385,358	6,351,366	6,318,450	12,663,842	12,669,816	5,974	0.05%
5114 Montana Arts Council	1,274,192	1,280,792	1,461,300	1,450,058	2,554,984	2,911,358	356,374	13.95%
5115 Montana Library Commission	4,671,608	4,668,378	5,136,697	4,117,321	9,339,986	9,254,018	(85,968)	-0.92%
5117 Montana Historical Society	4,202,780	4,545,008	4,556,910	4,533,241	8,747,788	9,090,151	342,363	3.91%
Total Proposed Budget By Agency	**$978,852,438**	**$1,178,400,123**	**$1,137,095,638**	**$1,154,315,920**	**$2,157,252,561**	**$2,291,411,558**	**$134,158,997**	**6.22%**
01000 General Fund	719,477,679	885,772,254	856,314,462	863,042,676	1,605,249,933	1,719,357,178	114,107,245	7.11%
02000 State Special Revenue Funds	22,137,796	20,908,530	69,389,213	71,423,751	43,046,326	140,812,964	97,766,638	227.12%
03000 Federal Special Revenue Funds	236,345,011	270,630,473	210,474,398	218,933,298	506,975,484	429,407,696	(77,567,788)	-15.30%
06000 Proprietary Funds	891,952	1,088,866	917,565	916,195	1,980,818	1,833,760	(147,058)	-7.42%
Total Proposed Funding	**$978,852,438**	**$1,178,400,123**	**$1,137,095,638**	**$1,154,315,920**	**$2,157,252,561**	**$2,291,411,598**	**$134,159,037**	**6.22%**

Agency Description

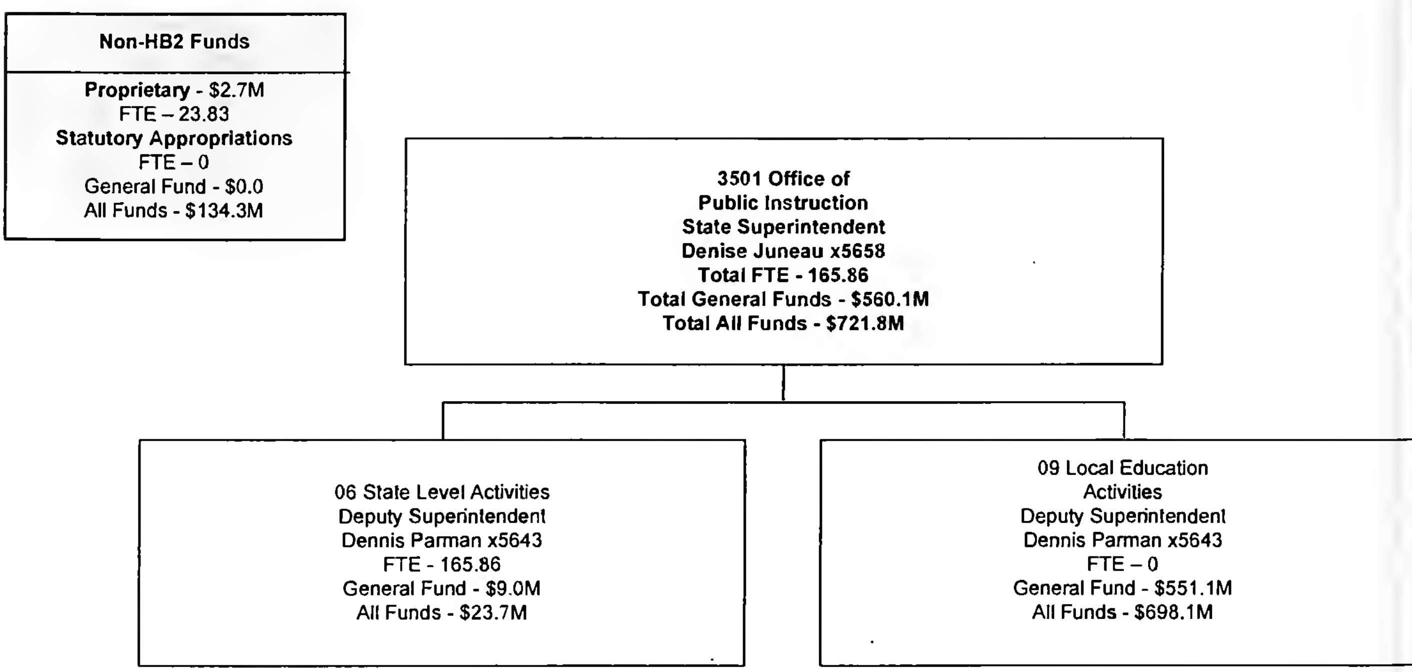
The fourteen-member Board of Education (BOE), under authority of Article X, Section 9 of the Montana Constitution, is composed of the Board of Regents of Higher Education (BOR) and the Board of Public Education (BOPE). It is responsible for long-range planning, and for coordinating and evaluating policies and programs for the state's educational systems. The Board of Education is constitutionally required to submit a unified budget request for the state's education system.

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	165.86	165.86	165.86	165.86	165.86	165.86	0.00	0.0
Personal Services	9,958,949	11,582,397	10,676,905	10,674,244	21,541,346	21,351,149	(190,197)	(0.88
Operating Expenses	14,806,100	21,595,012	16,036,171	16,067,292	36,401,112	32,103,463	(4,297,649)	(11.81
Equipment & Intangible Assets	11,839	50,426	11,839	11,839	62,265	23,678	(38,587)	(61.97
Local Assistance	564,594,849	713,487,529	685,768,117	690,860,253	1,278,082,378	1,376,628,370	98,545,992	7.7
Grants	132,029,203	147,998,651	139,766,183	143,416,183	280,027,854	283,182,366	3,154,512	1.1
Transfers	409,490	1,490,510	409,490	409,490	1,900,000	818,980	(1,081,020)	(56.90
Total Costs	**$721,810,430**	**$896,204,525**	**$852,668,705**	**$861,439,301**	**$1,618,014,955**	**$1,714,108,006**	**$96,093,051**	**5.94**
General Fund	560,053,258	722,904,404	650,266,733	654,798,000	1,282,957,662	1,305,064,733	22,107,071	1.7
State Special	975,513	979,051	48,018,021	48,610,569	1,954,564	96,628,590	94,674,026	4,843.7
Federal Special	160,781,659	172,321,070	154,383,951	158,030,732	333,102,729	312,414,683	(20,688,046)	(6.21
Total Funds	**$721,810,430**	**$896,204,525**	**$852,668,705**	**$861,439,301**	**$1,618,014,955**	**$1,714,108,006**	**$96,093,051**	**5.94**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: The Montana Office of Public Instruction provides vision, advocacy, support and leadership for schools and communities to ensure that all students meet today's challenges, and tomorrow's opportunities.

The Superintendent of Public Instruction is an elected official authorized by Article VI, Section 1, of the Montana Constitution. The Office of Public Instruction (OPI) distributes funding to school districts and provides services to Montana's school-age children and to teachers in approximately 427 school districts. The staff provides technical assistance in planning, implementing, and evaluating educational programs in such areas as teacher preparation, teacher

certification, school accreditation, school curriculum, school finance, and school law. The staff also administers a number of federally-funded programs and provides a variety of information services, including the information systems necessary to assess student achievement and the quality of Montana's elementary and secondary school system.

Agency Highlights

Office of Public Instruction
Major Budget Highlights

- The Governor proposes to increase this agency's budget by 5.9% when compared to the previous biennium.
- State level activities decreases by 9.6% due to adjustments made to federal authority to equal anticipated funding
- The executive proposes an increase in OPI's distribution to schools program of $276.7 million in state funds in the 2013 biennium when compared to base expenditures in FY 2010. The increase is $101.6 million when compared to the 2011 biennium.
    - The difference between the doubled base and biennial increases is due to the provision of one-time funding for the Otter Creek leases and from the federal government in FY 2010, both of which replaced general fund in that year only
- Of this amount, present law general fund spending would increase $269.7 million in the 2013 biennium. New proposals would reduce general fund spending by $87.4 million, and state special revenue account spending would increase by $94.4 million. The biennial present law increases in general fund spending from the doubled FY 2010 base are:
    - $29.2 million to replace spending that was supplied by federal American Reinvestment and Recovery Act (ARRA) funds in FY 2010
    - $169.3 million to replace spending that was supplied by the guarantee fund using coal bonus payments made by Arch Coal Co in FY 2010 (Otter Creek)
    - $26.2 million to bring general fund spending up to levels consistent with FY 2011 entitlements
    - $29.6 million to reflect an inflationary increase in entitlements equivalent to 1.9% in FY 2012 and 1.5% in FY 2013
    - $10.0 million for the at-risk payment
    - $3.0 million to maintain special education spending
    - $2.4 million for additional spending on HB 124 block grants, transportation, and other general fund spending

- The executive budget also increases federal spending by $19.1 million primarily in school foods, Title 1, and special education. This is offset by a $29.2 million reduction in federal ARRA funds

- The executive budget contains two new proposals that switch funding for K-12 programs from the general fund to state special revenue accounts, one proposal to increase the quality educator payment by inflation, and one proposal to increase special education by inflation. These proposals are:
    - Remove $17.2 million in school facility reimbursements from the general fund and pay for this program from the school facility and technology fund using streambed rental monies
    - Remove $76.7 million in quality educator payments from the general fund and pay for this program from a new Teach Montana state special revenue account, which would receive oil and gas revenues

that have been diverted from school district coffers; this would also require GTB funding in the amount of \$3.8 million for school districts that lose oil and gas revenues

- Increase the quality educator payment by inflation in FY 2013 for an additional cost to the Teach Montana account of \$0.6 million
- Increase special education for the biennium by \$2.7 million to reflect inflation

Legislative Action Issues

- Major LFD Issues
  - The executive underestimates K-12 general fund costs for the 2013 biennium by \$14.0 million. Of this amount, new cost data shows \$7.5 million is due to higher than predicted costs to pay for spending consistent with FY2011 entitlement levels. The remaining increase in general fund cost, \$6.5 million, is the result of lower revenue estimates for the guarantee account as chosen by the Revenue and Transportation Interim Committee.
  - The executive proposes to use the school facility and technology account to pay for school facility reimbursements instead of the general fund. The revenue in the school facility and technology account during the 2013 biennium will depend on the riverbed rents paid by Avista and PPL. The PPL portion of these payments is in litigation at the US Supreme Court and it is unknown when the case will be resolved. If PPL wins the case, these revenues will be unavailable to pay for school facility reimbursements.
  - The executive proposes to create a new Teach Montana state special account to pay for the quality educator payment, an amount of approximately \$38.0 million per year, and pay for this payment by diverting 90% of oil and natural gas revenues currently distributed to school districts in 32 counties. This action is contingent on passage of LC 360. In the latest year in which data is available, school districts received \$33.6 million in oil and gas revenues, not enough to pay for one year's quality educator payment.
  - The executive improperly increases the special education appropriation by the attendant GTB increase which is properly BASE Aid, in both its present law adjustment and new proposal for special education.
  - The MT Digital Academy is required to provide a report to the legislature regarding its first biennia of operations.
- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	4.00	4.00	4.00	4.00	4.00	4.00	0.00	0.00%
Personal Services	289,792	298,929	295,689	300,929	588,721	596,618	7,897	1.34%
Operating Expenses	92,809	112,510	103,466	103,996	205,319	207,462	2,143	1.04%
Equipment & Intangible Assets	0	0	0	0	0	0	0	n/a
Debt Service	1,782	1,782	1,782	1,782	3,564	3,564	0	0.00%
Total Costs	**$384,383**	**$413,221**	**$400,937**	**$406,707**	**$797,604**	**$807,644**	**$10,040**	**1.26%**
General Fund	198,333	227,589	228,017	233,385	425,922	461,402	35,480	8.33%
State Special	186,050	185,632	172,920	173,322	371,682	346,242	(25,440)	(6.84%)
Total Funds	**$384,383**	**$413,221**	**$400,937**	**$406,707**	**$797,604**	**$807,644**	**$10,040**	**1.26%**

Agency Description

Mission Statement: The Montana Constitution created and empowered the Board of Public Education to supervise, serve, maintain, and strengthen Montana's system of free quality public elementary and secondary schools. The board exists to promote high academic achievement for all Montana students.

Article X, Section 9 of the Montana Constitution establishes authority for the seven-member Board of Public Education (BPE). As per constitutional direction the board exercises "general supervision over the public school system" including the Montana School for the Deaf and Blind. General supervision includes activities such as school accreditation, teacher certification, standardization of policies and programs, and equalization of state aid distribution. The board, with recommendation from the Superintendent of Public Instruction, establishes the accreditation status of each school. This accreditation is the basis for local school district eligibility for state funding.

Per 20-2-101, MCA, the board combines with the Board of Regents to create the State Board of Education. The State Board of Education is responsible for general planning, coordination, and evaluation of the state education system, and for developing and submitting to the legislature the unified budget for Montana's educational system.

Agency Highlights

Board of Public Education
Major Budget Highlights

- The Governor proposes to increase this agency's budget by 1.26 percent from the previous biennium
- Major initiatives in the executive budget are:
    - Reductions in operating expenses to make permanent the reductions made by the Governor during the 2011 biennium
    - A fund switch from teacher certification fees to general fund

Legislative Action Issues

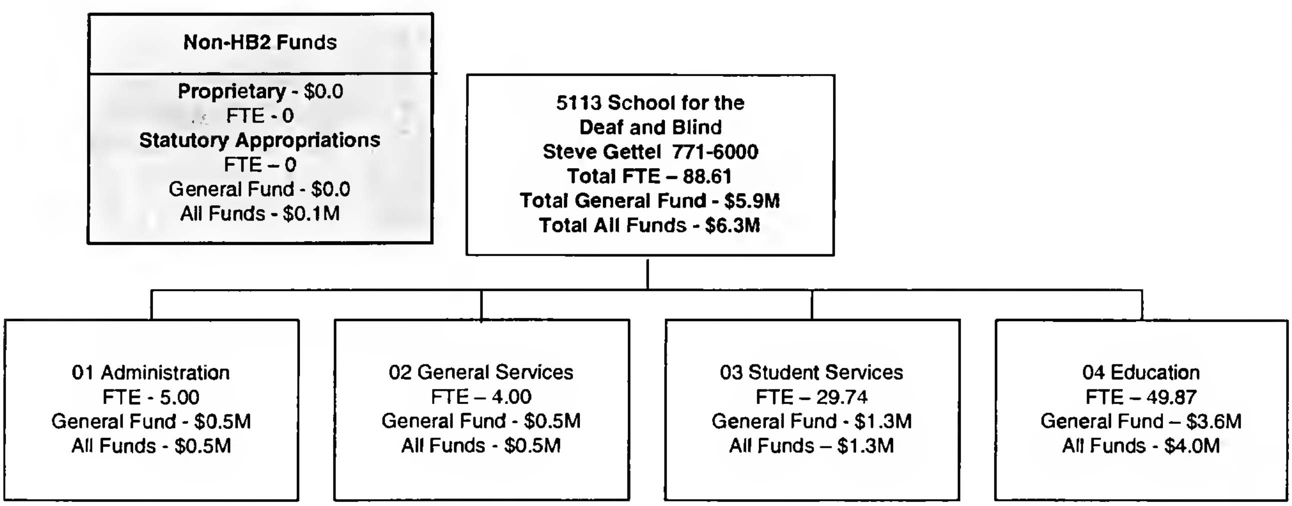
- Governor's budget creates a structural imbalance in the state special revenue fund used to support the board and advisory council

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	88.61	88.61	87.36	87.36	88.61	87.36	(1.25)	(1.41%
Personal Services	5,396,578	5,496,967	5,511,251	5,513,733	10,893,545	11,024,984	131,439	1.21
Operating Expenses	881,906	888,391	840,115	804,717	1,770,297	1,644,832	(125,465)	(7.09%
Total Costs	**$6,278,484**	**$6,385,358**	**$6,351,366**	**$6,318,450**	**$12,663,842**	**$12,669,816**	**$5,974**	**0.05**
General Fund	5,865,460	5,953,456	6,000,578	5,967,474	11,818,916	11,968,052	149,136	1.26
State Special	333,818	348,929	268,731	268,919	682,747	537,650	(145,097)	(21.25%
Federal Special	79,206	82,973	82,057	82,057	162,179	164,114	1,935	1.19
Total Funds	**$6,278,484**	**$6,385,358**	**$6,351,366**	**$6,318,450**	**$12,663,842**	**$12,669,816**	**$5,974**	**0.05**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Mission Statement: As part of Montana's educational system, the Montana School for the Deaf and the Blind is committed to promote and provide free and appropriate educational opportunities statewide, for children who are deaf, hard of hearing, blind, low vision, and deaf-blind ages birth to twenty-one. This comprehensive education ensures these children achieve their greatest potential for independence and success.

The Montana School for the Deaf and Blind (MSDB), located in Great Falls, is part of Montana's educational system, and under the policy and governance of the State Board of Public Education. The school is a state funded special purpose school with a residential option for children and adolescents whose hearing or sight is a barrier to receiving proper education in the public schools of the state. MSDB also provides outreach educational services and serves as a resource center for parents of deaf and blind children, as well as state public schools and organizations that serve sensory impaired children.

The school consists of four programs with the following functions:

- Administration (5.0 FTE) - purchasing, accounting, personnel functions, and overall management of the school
- General Services (4.0 FTE) - upkeep and maintenance of school facilities and grounds of the 18.5 acre campus

- Student Services (29.74 FTE) - round-the-clock residential care for children residing at the school, including general supervision, meal services, and support services
- Educational Services (49.87 FTE) –residential, outreach, and mainstream educational programs

Agency Highlights

Montana School for the Deaf and Blind Major Budget Highlights
♦ The Governor proposes to increase the school's budget by .05%, due primarily to statewide present law adjustments and the executive's proposed personal services reduction ♦ The major initiative in this budget is the executive's personal services reduction
Legislative Action Issues
♦ Personal services reductions may negatively impact the school's ability to provide a quality education for sensory impaired students ♦ If the legislature increases the quality educator payment, an adjustment to this budget is required by statute

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	7.00	7.00	7.00	7.00	7.00	7.00	0.00	0.0
Personal Services	580,863	544,960	538,780	539,997	1,125,823	1,078,777	(47,046)	(4.18
Operating Expenses	243,542	314,929	309,791	288,748	558,471	598,539	40,068	7.1
Grants	449,787	420,903	612,729	621,313	870,690	1,234,042	363,352	41.7
Total Costs	**$1,274,192**	**$1,280,792**	**$1,461,300**	**$1,450,058**	**$2,554,984**	**$2,911,358**	**$356,374**	**13.9**
General Fund	465,294	463,194	454,845	445,255	928,488	900,100	(28,388)	(3.06
State Special	212,426	215,074	204,342	201,903	427,500	406,245	(21,255)	(4.97
Federal Special	596,472	602,524	802,113	802,900	1,198,996	1,605,013	406,017	33.8
Total Funds	**$1,274,192**	**$1,280,792**	**$1,461,300**	**$1,450,058**	**$2,554,984**	**$2,911,358**	**$356,374**	**13.9**

Agency Description

Mission Statement: The Montana Arts Council is the agency of state government established to develop the creative potential of all Montanans, advance education, spur economic vibrancy and revitalize communities through involvement in the arts.

The Montana Arts Council (MAC) is authorized by Title 22-2-101, MCA to assist public and private institutions with artistic and cultural activities. The council encourages participation in, and appreciation of, the arts. The council fosters interest in the state's cultural heritage, expands state cultural resources, and supports freedom of artistic expression through ongoing programs and projects. The council administers the Cultural and Aesthetic Project grants and other grants approved by the legislature, and makes recommendations to the legislature on arts related issues.

The Montana Arts Council provides these services through a structure consisting of one division with 7.00 FTE

Promotion of the Arts

Grants are funded through the general appropriations act and offered to schools, artists, and cultural organizations including Artists in Schools grants, Public Value Partnership Grants, and other grant programs. MAC also administers grants funded through the Cultural and Aesthetic Trust.

Programs and Services

MAC offers a variety of services to artists in Montana including an artist registry, an arts education hotline, a leadership institute, entrepreneurial initiatives, and other services.

Communication

MAC also offers a number of communication methodologies for those interested in additional information on the arts in Montana, including website services and the State of the Arts newspaper.

Agency Highlights

Montana Arts Council
Major Budget Highlights

- The Montana Arts Council budget increases 14% in the 2013 biennium due to an anticipated increase in its federal grant from the National Endowment for the Arts
- The executive continues the $23,010 17-7-140, MCA, general fund reduction incurred by MAC in the 2011 biennium into the 2013 biennium
- Due to its small size, the executive exempts this agency from vacancy savings and the 4% personal services reduction applied to larger agencies
- As an agency with 20 or fewer FTE, MAC is exempt from the statutory requirement to submit a 5% reduction plan

Legislative Action Issues

- The 2013 biennium executive budget proposes spending more from the cultural and aesthetic project account than the revenue to that account projected by the Revenue and Transportation Interim Committee will support

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	30.50	30.50	29.00	29.00	30.50	29.00	(1.50)	(4.92
Personal Services	2,064,578	1,779,388	1,738,949	1,740,427	3,843,966	3,479,376	(364,590)	(9.48
Operating Expenses	2,069,966	1,888,345	1,996,875	1,976,021	3,958,311	3,972,896	14,585	0.3
Equipment & Intangible Assets	44,016	19,216	44,016	44,016	63,232	88,032	24,800	39.2
Grants	493,048	981,429	1,356,857	356,857	1,474,477	1,713,714	239,237	16.2
Total Costs	**$4,671,608**	**$4,668,378**	**$5,136,697**	**$4,117,321**	**$9,339,986**	**$9,254,018**	**($85,968)**	**(0.92**
General Fund	2,722,517	2,787,459	2,721,573	2,705,797	5,509,976	5,427,370	(82,606)	(1.50
State Special	803,498	803,523	807,098	803,498	1,607,021	1,610,596	3,575	0.2
Federal Special	1,145,593	1,060,155	1,608,026	608,026	2,205,748	2,216,052	10,304	0.4
Other	0	17,241	0	0	17,241	0	(17,241)	(100.00
Total Funds	**$4,671,608**	**$4,668,378**	**$5,136,697**	**$4,117,321**	**$9,339,986**	**$9,254,018**	**($85,968)**	**(0.92**

Agency Description

Mission Statement: Montana Library Commission (MLC) meets the information needs of Montana government agency management and staff, ensures all Montana citizens have access to information created by their government, supports the role of all Montana libraries in delivering quality library content and services to their patrons, works to strengthen local community public libraries, ensures that Montanans who are visually or physically handicapped are provided access to library resources, and measures its successes by its patrons' and partners' successes.

MLC, authorized in Section 22-1-101, MCA, administers state and federal library funding to operate and maintain the state library, oversees the six library federations located throughout Montana, and develops library oriented statewide long-range planning, policy, and service coordination.

MLC is further authorized in section 90-15-101, MCA to establish a planning framework for the development of the natural resources information system (NRIS), to implement the system, and to establish an ongoing Montana Natural Heritage Program.

Additional responsibilities of the commission include: assisting all tax-supported libraries and local governments wishing to establish or improve libraries; maintaining an audio book library for use by Montanans unable to utilize printed materials; providing access to state publications; and maintaining and providing information related to Montana's plant and animal species and habitat and comprehensive natural resources (land) information.

Agency Highlights

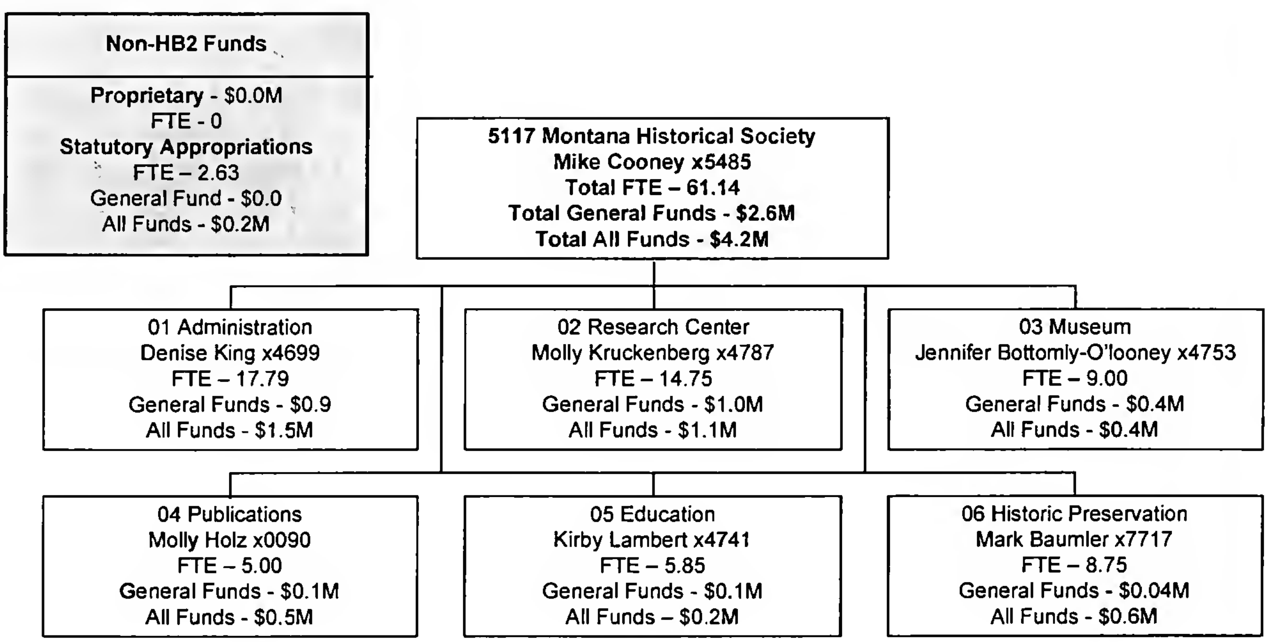
Montana Library Commission Major Budget Highlights
♦ The Governor proposes to decrease this agency's budget by 1% from the previous biennium ♦ The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 1.50 FTE positions ♦ The major initiative by the Governor for this agency is to add 1.50 FTE positions in the off-budget Montana Shared Catalog program at a biennial net cost of $37,186 funded 100% from proprietary funds ♦ Interim Committee Recommendation • The Legislative Finance Committee recommends that the budget starting point be the adjusted base minus 5%

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	61.14	61.14	59.83	59.83	61.14	59.83	(1.31)	(2.14
Personal Services	2,814,802	3,109,826	3,136,677	3,138,552	5,924,628	6,275,229	350,601	5.92
Operating Expenses	1,242,132	1,277,968	1,277,387	1,251,843	2,520,100	2,529,230	9,130	0.36
Equipment & Intangible Assets	6,954	29,711	3,954	3,954	36,665	7,908	(28,757)	(78.43
Grants	88,389	77,000	88,389	88,389	165,389	176,778	11,389	6.89
Transfers	50,503	50,503	50,503	50,503	101,006	101,006	0	0.00
Total Costs	**$4,202,780**	**$4,545,008**	**$4,556,910**	**$4,533,241**	**$8,747,788**	**$9,090,151**	**$342,363**	**3.91**
General Fund	2,641,116	2,761,337	2,862,024	2,835,068	5,402,453	5,697,092	294,639	5.45
State Special	90,795	139,710	91,082	91,082	230,505	182,164	(48,341)	(20.97
Federal Special	659,333	671,859	760,618	765,318	1,331,192	1,525,936	194,744	14.63
Other	811,536	972,102	843,186	841,773	1,783,638	1,684,959	(98,679)	(5.53
Total Funds	**$4,202,780**	**$4,545,008**	**$4,556,910**	**$4,533,241**	**$8,747,788**	**$9,090,151**	**$342,363**	**3.91**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

The Montana Historical Society (MHS), authorized by Title 22-3-101, MCA, exists for the use, learning, culture, and enjoyment of the citizens of, and visitors to, the State of Montana. MHS acquires, preserves, and protects historical records, art, documents, photographs, museum objects, historical places, sites, and monuments. MHS maintains a historical museum and a library and archives; provides educational programs and services for teachers and the general public; and, publishes the state historical magazine, press books, and newsletter. MHS also administers the preservation and antiquities acts; supports commissions with state historical orientation; and, provides technical assistance to all Montana museums, historical societies, preservation programs, and owners of historic resources.

Agency Highlights

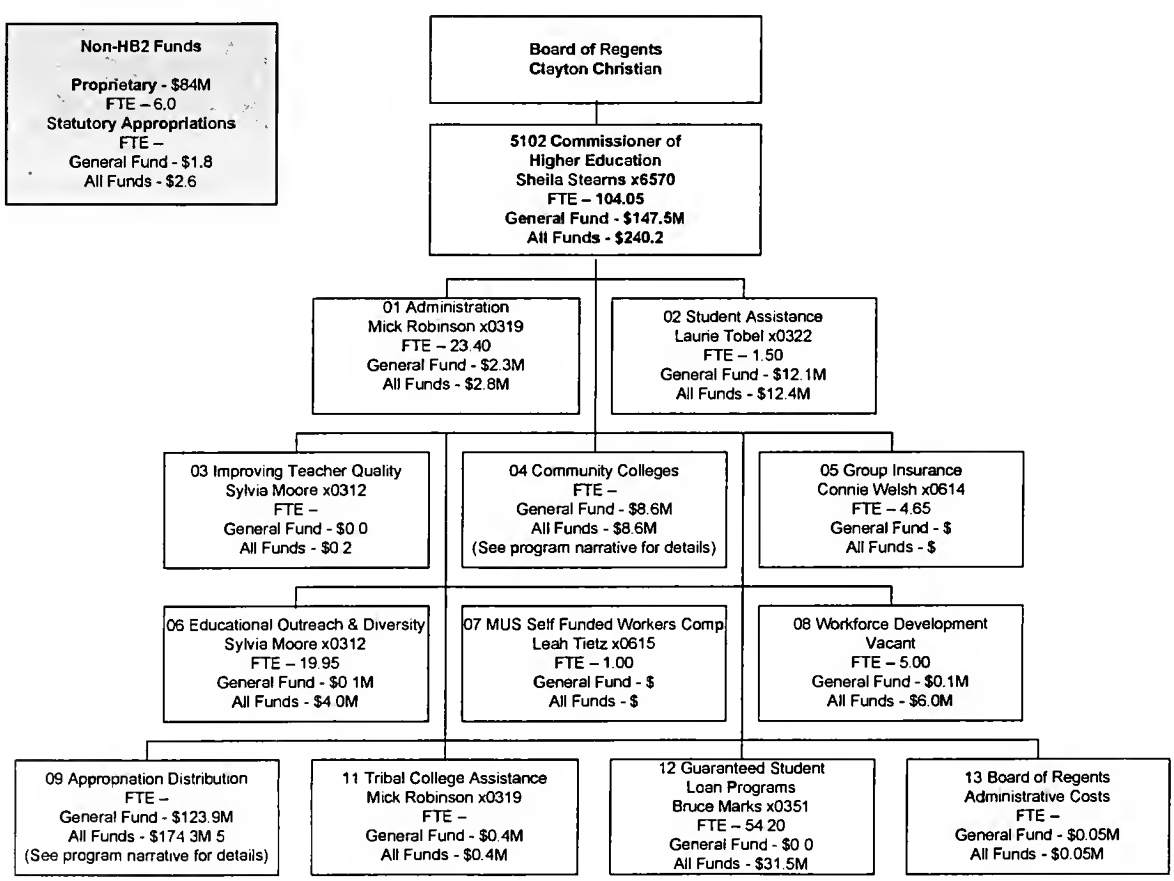
Montana Historical Society Major Budget Highlights
♦ The executive budget proposes to increase the budget 3.9%, primarily due to statewide present law adjustments ♦ The executive budget reduces general funded personal services costs 4% each year of the 2013 biennium, including the elimination of 1.31 FTE positions ♦ The executive budget proposes to reduce general fund budgets $126,000 in the 2013 biennium as part of the 5% reduction plan, but offsets $21,400 of the general fund reduction with increased proprietary fund authority ♦ The executive budget includes a one-time-only request for $16,000 general fund for a physical and structural evaluation of the Original Governor's Mansion
Legislative Action Issues
♦ Lodging facility use tax funding for MHS relies upon goodwill between executive and legislative branches

Agency Budget Comparison

The following table summarizes the total executive budget for the agency by year, type of expenditure, and source of funding.

Agency Budget Comparison Budget Item	Base Fiscal 2010	Approp. Fiscal 2011	Budget Fiscal 2012	Budget Fiscal 2013	Biennium Fiscal 10-11	Biennium Fiscal 12-13	Biennium Change	Biennium % Change
FTE	104.05	104.05	93.88	93.88	104.05	93.88	(10.17)	(9.77
Personal Services	5,405,153	7,319,233	5,874,346	5,893,313	12,724,386	11,767,659	(956,727)	(7.52
Operating Expenses	5,047,869	7,436,719	5,348,710	5,238,636	12,484,588	10,587,346	(1,897,242)	(15.20
Equipment & Intangible Assets	0	70,464	10,000	0	70,464	10,000	(60,464)	(85.81
Local Assistance	8,687,831	8,874,483	11,535,186	11,424,393	17,562,314	22,959,579	5,397,265	30.7
Grants	16,202,303	22,954,774	19,492,668	19,181,834	39,157,077	38,674,502	(482,575)	(1.23
Benefits & Claims	25,813,316	42,148,362	32,313,316	38,813,316	67,961,678	71,126,632	3,164,954	4.6
Transfers	179,030,609	176,052,286	191,902,017	195,455,870	355,082,895	387,357,887	32,274,992	9.0
Debt Service	43,480	46,520	43,480	43,480	90,000	86,960	(3,040)	(3.38
Total Costs	**$240,230,561**	**$264,902,841**	**$266,519,723**	**$276,050,842**	**$505,133,402**	**$542,570,565**	**$37,437,163**	**7.41**
General Fund	147,531,701	150,674,815	193,780,692	196,057,697	298,206,516	389,838,389	91,631,873	30.7
State Special	19,535,696	18,236,611	19,827,019	21,274,458	37,772,307	41,101,477	3,329,170	8.8
Federal Special	73,082,748	95,891,892	52,837,633	58,644,265	168,974,640	111,481,898	(57,492,742)	(34.02
Other	80,416	99,523	74,379	74,422	179,939	148,801	(31,138)	(17.30
Other	0	0	0	0	0	0	0	
Total Funds	**$240,230,561**	**$264,902,841**	**$266,519,723**	**$276,050,842**	**$505,133,402**	**$542,570,565**	**$37,437,163**	**7.41**

The following is the agency organizational chart, with contact information. The chart has been modified by the LFD to include the FY 2010 base budget FTE, general fund, and total funds for each program. As applicable, total agency proprietary funds and statutory appropriations, along with associated FTE, are also shown.



Agency Description

Agency Mission: To serve students through the delivery of high quality, accessible postsecondary educational opportunities, while actively participating in the preservation and advancement of Montana's economy and society.

The Office of the Commissioner of Higher Education (OCHE) is the state-level administrative organization of the Montana University System (MUS). The Montana Constitution, Article X, Section 9, grants governance authority over the MUS to the Board of Regents (Regents), with seven members appointed by the Governor. All state funds appropriated by the legislature to the Regents for the support of the MUS are channeled through OCHE. The Constitution charges the Regents with hiring a Commissioner of Higher Education (CHE) who serves as its executive staff. The agency's 11 programs are:

- OCHE Administration*- General administration of the Montana University System including system level academic, financial, legal, and labor management functions. The Montana Constitution requires the Board of Regents to appoint a Commissioner of Higher Education and prescribe his/her duties.
- Student Financial Assistance*- Financial assistance programs for students attending units of the Montana University System. Programs include several state and federal funded grant programs, state support for professional student exchange programs, and loan repayment assistance programs.
- Improving Teacher Quality*- A federally-funded program intended to provide professional development and teacher training that improves teaching methods and teaching skills in the classroom
- Community College Assistance - State funding for community colleges is budgeted in this program. Two-year community colleges in Kalispell, Glendive, and Miles City collectively serve about 3,000 resident full-time students.
- MUS Group Health Insurance -This program administers a system wide group benefit program for MUS campuses, agencies, and programs, and the state's community colleges. Both the employer and the employee participate in the cost of this program.
- Educational Outreach and Diversity Program*- A primarily federally funded program that serves at-risk and underrepresented populations to increase participation and retention in postsecondary education.
- MUS Self-Insured Workers Compensation - Since July 2003, this program manages the MUS self-insured workers compensation program. All workers compensation insurance for the MUS is provided through this program.
- Workforce Development*- The OCHE and the Office of Public Instruction coordinate the primarily federal efforts to support vocational education at the secondary and postsecondary levels.
- Appropriation Distribution – State funding for university educational units and agencies is budgeted in this program. The MUS campuses collectively serve approximately 28,500 resident full-time students.
    - University Units*
        - UM Missoula
        - UM MT Tech
        - UM Western
        - UM Helena
        - MSU Bozeman
        - MSU Billings
        - MSU Northern
        - MSU Great Falls
    - Research and Public Service Agencies
        - Agricultural Experiment Station
        - Extension Service
        - Forest and Conservation Experiment Station
        - Bureau of Mines
        - Fire Services Training School
- Tribal College Assistance - Provides funding to Montana tribal colleges to support a portion of the cost of educating nonbeneficiary Montana students (non-tribal members) attending the seven tribal community colleges on the reservations in Montana.

- Guaranteed Student Loan Program*-Guarantees student loans that were made by private lenders to higher education students in Montana under the former Federal Family Education Loan Program prior to July 1, 2010. After July 1, all federal student loans will be issued and serviced through the U.S. Department of Education's William D. Ford Direct Loan Program.
- Board of Regents*- This program provides travel expenses and per diem expenses for the Board of Regents.

*Since the 1995 legislative session, the legislature has combined the appropriation for the university educational units and most of OCHE into a single, lump-sum appropriation. Thus, the legislature determines the size of this budget, but the Regents make the ultimate funding allocations to the various university campuses and programs.

Agency Highlights

Montana University System
Major Budget Highlights

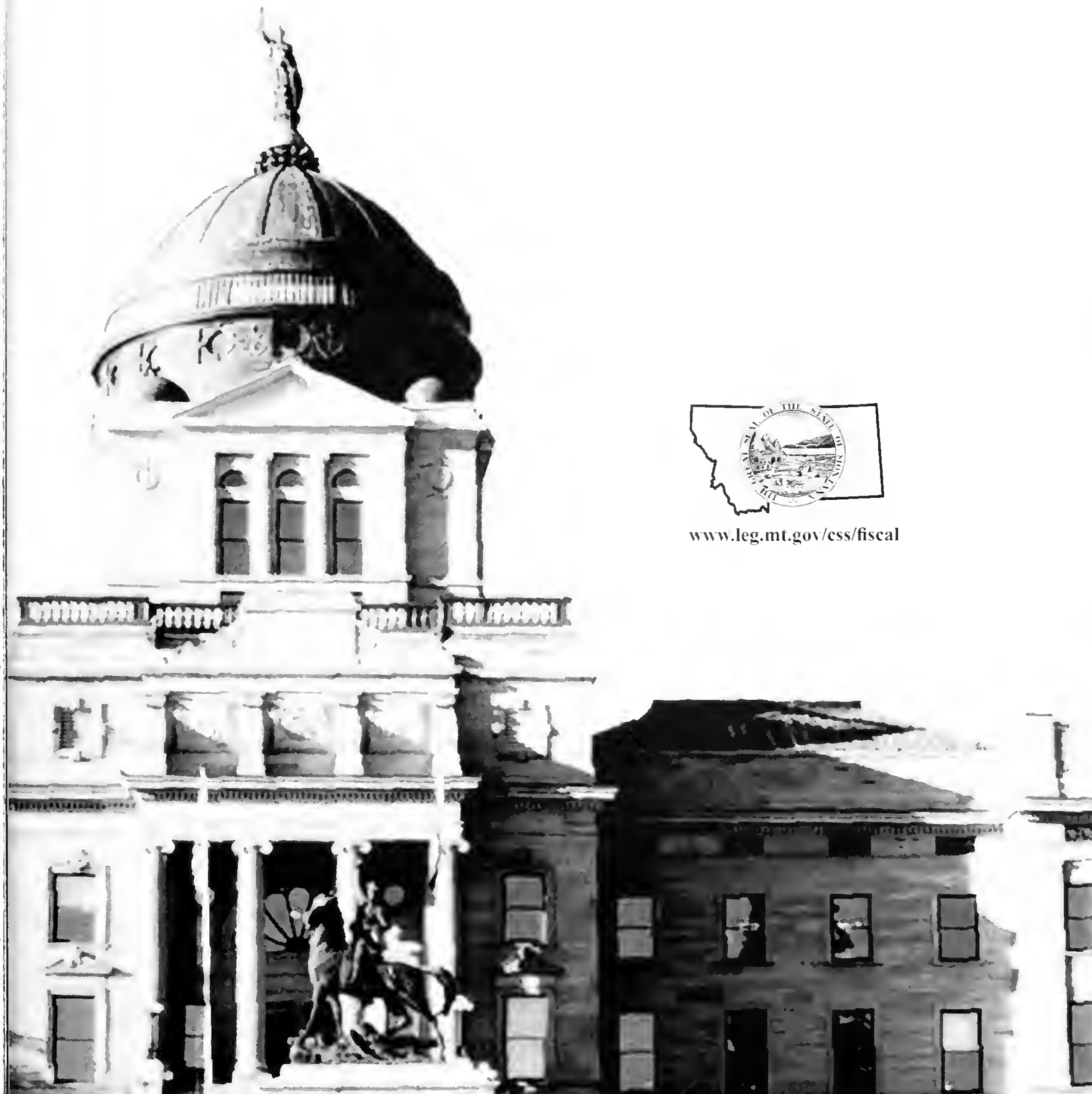
- Total funding for the agency increases 7.4%, with general fund increasing 30.7% and federal funds decreasing 34.0% due to:
  - Replacement of $59.5 million of federal stimulus funds with general fund as allowed in HB 645
  - Increased state funding for community colleges, universities, and tribal colleges
  - Using a different methodology to estimate state percent share for the MUS campuses and agencies than was used for the 2011 biennium
- The executive budget proposes general fund reductions in the agency totaling $10.3 million, with most of this reduction impacting the state funds transferred to the university units, community colleges, and tribal colleges
- The executive backfills $1.8 million of reductions in the Student Assistance Program with federal funds from the guaranteed student loan account
- The executive proposes that one-time-only funding for PBS and biodiesel research be reinstated - $400,000 each project
- The executive budget proposes two new initiatives for higher education:
  - Dual enrollment, $500,000
  - University Unit increase - $12.66 million
- The executive budget proposes to transfer the Digital Academy from the Office of the Commissioner of Higher Education to the Office of Public Instruction

Legislative Action Issues

- Interim Committee Recommendations
  - The Legislative Finance Committee recommends that the starting point for budget deliberations be the adjusted base less the agency 5% reduction plan
- The Legislative Fiscal Division Reference Book includes an option to amend a statutory appropriation relating to the MUS optional retirement program to require that the general fund statutory appropriation only be used for positions that are paid from the general fund
- The executive budget double counted the 1% MUS optional retirement program employer contribution increase, overestimating the 2013 biennium general fund cost by $2.4 million

Appendix

www.leg.mt.gov/css/fiscal



APPENDIX A

GOVERNOR'S BUDGET REVISIONS

On December 15, the executive submitted amendments to the original executive budget as allowed under 17-7-112 (9), MCA.

The primary modification came in the form of an increase in the executive's revenue estimate which is used to balance the executive budget proposal. A comparison of the Governor's fund balance analysis for the December 15 and November 15 budget submissions shows an increase in general funds available for FY 2011 through FY 2013 of $118.7 million. The executive revenue estimate is $104.3 million above the revenues adopted by the Revenue and Transportation Interim Committee on November 19, 2010.

On the disbursement side, the Governor's revision of expenditures that were submitted on December 15 are:

- A net HB 2 reductions of $2.3 million general fund and $1.0 million other funds
- No revisions to statutory appropriations or non-HB 2 proprietary funds
- No revisions to the Long-Range Planning spending proposals
- Revisions to two fund transfers:
  - From the Treasure State Endowment Program, the amount to be transferred was decreased from $18.5 million to $17.6 million to adjust in part for a funding shortage
  - From the Long-Range Building Program, an additional $1 million is transferred based upon the executive's increased revenue estimate.

The following figure provides a list of the decision package revisions that comprise the HB 2 related changes.

This list identifies the changes for each department by showing the decision package name but does not provide any detail beyond the dollar amount for the 2013 biennium. Legislative Fiscal Division staff has prepared its Legislative Budget Analysis based upon the original November 15 budget submission, except for Long-Range Planning – Section F in Volume 7. Staff will be prepared to explain differences for each agency budget for their respective joint appropriations subcommittees.

Generally, the revisions represented in the figure consist primarily of the following:

- Department of Justice: The executive revisions adjusts the Highway Patrol budget for:
  - An appropriation funding correction for executive protection funding
  - The statutorily required pay adjustments for Highway Patrol officers in HB 2
- Higher Education: The Governor's November 15th budget overstated HB 2 personal services costs for the Montana University System by $2.4 million as the proposed budget included the 1% optional retirement plan costs that are statutorily appropriated by Section 19-21-203, MCA. Rather than reduce the proposed

budget, the Governor added the $2.4 million to the $12.66 million new proposal for the Montana University System. This adjustment also impacted the 4% personal services reduction calculation.

- Department of Public Health and Human Services: The revised executive budget submitted in December lowered general fund by a net $4.0 million compared to the original submission in November. General fund changes over $0.1 million are:
  - Offset general fund state Medicaid match for increased enrollment in HMK with insurance premium tax state special revenue – $3.1 million
  - Reinstate a portion of funding for mental health crisis jail diversion services - $0.6 million
  - Remove duplicate request for information technology facility maintenance contracts - $0.3 million

2013 Biennium Executive Budget Revisions - Expenditures
Adjustments Received December 15, 2010 - Per 17-7-112(9), MCA

Agency	Fund	Decision Package	2013 Biennium
House Bill 2			
Justice	GF	PL00000 Adjust Base	$ (368,055
Justice	SSR	PL00000 Adjust Base	165,026
Justice	PF	PL00000 Adjust Base	203,029
Justice	SSR	PL01307 MPH Salary Increase per Survey	1,900,000
Comm of Higher Ed	GF	NP0918 University System Funding	2,363,208
Comm of Higher Ed	GF	NP55400 4% Personal Services Reduction	249
Comm of Higher Ed	GF	NP55401 4% Personal Services Reduction - Educational Units	88,051
Comm of Higher Ed	GF	NP55402 4% Personal Services Reduction - Agencies	6,072
Comm of Higher Ed	GF	PL00920 Remove 1% Statutory ORP from Base	(2,363,208
Comm of Higher Ed	FF	PL00920 Remove 1% Statutory ORP from Base	(1,766
Natural Resources & Cons	SSR	NP02324 Resource Development Bureau Fund Switch	-
Public Health & Human Svc	GF	NP80010 Recovery Audit Contract	69,788
Public Health & Human Svc	SSR	NP80010 Recovery Audit Contract	68,238
Public Health & Human Svc	FF	NP80010 Recovery Audit Contract	138,024
Public Health & Human Svc	SSR	PL70010 Tribal Tobacco Prevention Contract	180,000
Public Health & Human Svc	GF	PL11001 Med Ben - Physical Health Caseload	(3,135,714
Public Health & Human Svc	SSR	PL11001 Med Ben - Physical Health Caseload	3,135,714
Public Health & Human Svc	GF	PL11022 CPI - MMIS Components	(234,824
Public Health & Human Svc	FF	PL11022 CPI - MMIS Components	(692,756
Public Health & Human Svc	GF	PL55141 HB130 Crisis Diversion Funding in HB 2 (17-7-140)	1,238,936
Public Health & Human Svc	SSR	PL11017 HMK - CHIP - Caseload	(1,464,653
Public Health & Human Svc	FF	PL11017 HMK - CHIP - Caseload	(4,680,827
		Net Total	$ (3,385,468
		Net General Fund	(2,335,497
		Net Other Funds	(1,049,971

INTRODUCTION TO APPENDIX B – EXECUTIVE BUDGET DETAIL

This appendix includes additional budget detail summarization of various features of the executive budget. The following lists the executive detail items that are discussed in this section:

- Present Law Proposals
- Executive Initiatives – New Proposals
- One-Time-Only Expenditure Detail
- 5% Reduction Plan
- 4% Personal Services Reduction
- Fee Changes
- Fund Switches
- Proposals with Increased Future Costs
- Program Eliminations
- FTE Detail
- Fixed Costs
- FY 2011 Supplemental Requests – Detail
- Agency Budget Comparisons by Fund
- Miscellaneous Appropriations

PRESENT LAW ADJUSTMENTS

The executive would add $322.1 million general fund and $1,161.0 million total funds in HB 2. Of this total $393.0 million general fund or 122.0%, and $1,101.3 million total funds or 95.0%, would be for present law.

For ongoing expenditures, the executive would add $331.2 million general fund, with $486.2 million or 122.0% of this total for present law; and $1,145.1 million total funds, with $1,093.7 million or 95.5% of this total for present law.

- Present law is defined in statute as "...that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:
  - Changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
  - Changes in funding requirements resulting from constitutional or statutory schedules or formulas;
  - Inflationary or deflationary adjustments; and
  - Elimination of nonrecurring appropriations."
- Statewide present law adjustments (SWPLAs) are made to account for three factors:
  - Fully funding all personal services costs at the annualized total, and then applying a vacancy savings rate (the rate in the SWPLA is 4 percent)
  - Inflation on selected items, including gasoline and diesel

- o Fixed costs so agencies receiving services from centralized functions can pay for those services

As stated, present law changes comprise over 100% of general fund changes proposed by the executive and almost 95% of the total changes proposed by the executive for all changes. The large percentage of general fund changes attributable to present law is due to two factors: 1) the executive requests a net negative new proposals; and 2) the 2009 Legislature stipulated that certain federal funds added as a result of federal stimulus legislation for ongoing functions in human services and education could be replaced with general fund as a present law adjustment.

There are four main themes in the executive budget:

- The executive generally funds anticipated caseload and utilization increases in human services and population increases in corrections, and provides an inflationary increase for K-12 education
- The executive funds all statewide present law adjustments, including 4% vacancy savings for most positions (the 4% reduction to general fund ongoing personal services costs is in new proposals)
- All other general fund present law increases within agencies are minimal. For many agencies, statewide present law adjustments are the largest present law adjustment provided
- The executive replaces one-time federal funding that had replaced general fund in the base year with general fund in the 2013 biennium

The figure shows the allocation of present law adjustments by function of state government in the 2013 biennium compared to the FY 2010 base. Increases to human services and education are 91.6% of the general fund total, due in part to the replacement of federal funds with general fund as outlined below. The Departments of Transportation and Justice and environmental agencies are the prime reasons for the large percentage attributable to "other agencies" for total funds. Also, any replacement general fund causes a like reduction in other funds.

The following are the major present law adjustments made by the executive.

- Replacement of one-time federal stimulus money in human services and education identified by the last legislature as an ongoing expense (a like amount of federal funds were reduced)
- An increase in the regular federal matching requirements for human services programs (FMAP – a like amount of federal funds were reduced)
- Caseload and utilization increases in the Department of Public Health and Human Services, including Medicaid, Healthy Montana Kids, and SNAP (food stamps)

Present Law Adjustments by Functional Area
2013 Biennium Executive Budget
From the FY 2010 Base (including OTOs)
In Millions

Functional Area	Gen Fund % of Total	Total Funds % of Total
K-12 Education	42.0%	16.3%
Higher Education	12.8%	3.0%
Human Services	36.8%	48.0%
Corrections	4.0%	1.7%
Other Agencies	4.3%	31.1%

- Replacement of one-time funding in K-12 education received in FY 2010 due to additional federal funds and one-time payments for the rights to lease Otter Creek (a like amount of other funds was reduced)
- Inflationary increases in K-12 education and restoration of at-risk payments
- Various inflationary and other adjustments in the Montana University System
- Population growth and facility conversion and construction for secure care and community populations in the Department of Corrections
- Additional projected federal highway funds, and a four-fold expansion in the 100% state funded highway program
- Various information technology projects in the Department of Justice, including debt service payments
- Statewide present law adjustments

New Proposals

General fund new proposals are defined in the 2013 biennium executive budget by the reductions and fund switches proposed. General fund would be reduced by $78.0 million, while total funds would increase $51.4 million.

The following shows the distribution of new proposals by functional area. Please note that reductions within functional areas are being compared to a reduction in total. Therefore, K-12 shows as a positive total even though it has a net reduction in new proposals of over $85 million.

New Proposals by Functional Area
2013 Biennium Executive Budget
From the FY 2010 Base (including OTOs)
In Millions

Functional Area	Gen Fund % of Total	Total Funds % of Total
K-12 Education	109.0%	18.8%
Higher Education	-16.2%	28.9%
Human Services	8.8%	32.4%
Corrections	2.3%	-3.5%
Other Agencies	-3.9%	23.4%

The following shows the major general fund reductions included in the executive budget. Please note that for the funding switches, there is an equal increase in other funds.

Major Reductions in New Proposals Executive Budget 2013 Biennium General Fund, in Millions	
Agency/Reduction	Total Biennium
Multiple Agencies	
4% Personal Services Reduction	($15.7)
Carry Forward 17-7-140*	(6.7)
Office of Public Instruction	
Quality Educator	(72.9)
School Facilities	(17.2)
Natural Resources and Conservation	
Conservation Districts Fund Switch	(0.8)
Public Health and Human Services	
PACE Elimination	(0.6)
DD Refinance	(4.0)
Total	($117.9)

*Does not include $4.9 million reductions in DPHHS and Board of Crime Control coded as present law reductions.

Major increases proposed by the executive in general fund new proposals are shown in the following figure.

Major Increases in New Proposals Executive Budget 2013 Biennium General Fund, in Millions	
Agency/Reduction	Total Biennium
Montana University System	
Community College Assistance	$5.6
Units Assistance	15.2
Office of Public Instruction	
Digital Academy	2.3
Special Education Inflation	2.7
Revenue	
Tax Compliance	1.0
Commerce	
Economic Development	4.4
Energy Infrastructure	0.9
Public Health and Human Services	
Autism, MDC Waiver, Indian Property Exclusion	1.5
Total	$33.5

ONE-TIME-ONLY EXPENDITURES

The executive is proposing a negative ($9.2) million in general fund one-time-only (OTO) expenditures, and $15.8 million total funds. This figure contrasts sharply with the previous biennium, when a large beginning fund balance and federal stimulus funds resulted in OTO appropriations of $310.1 million general fund and $1,821 million total funds.

The following details proposed general fund OTO expenditures. The Medicaid benefit hold harmless account is a fund into which certain federal enhanced Medicaid match funds were deposited for Medicaid caseload increases in the 2013 biennium.

One-Time-Only Expenditure Proposals
Executive Budget General Fund
2013 Biennium

Agency/Purpose	2013 Biennium
Judiciary	
Court Help Program	$591,445
Office of Public Instruction	
National Board Certified Teachers	36,000
Justice	
FSD Equipment	300,000
Commissioner of Higher Education	
Community College Audit Costs	61,316
Montana Historical Society	
Historic Structures Report	16,000
Livestock	
LLRMB Loss Payments	150,000
Brucellosis Designated Surveillance Area	571,026
Brucellosis Vet and Compliance Specialist	131,727
Admnistration	
Close and Sell old Corrections Building	53,510
Purchase OPI Building	112,175
Statewide Reappraisal of Property	42,000
Agriculture	
Invasive Species	667,000
Corrections	
Security Equipment	205,000
Security Control System	325,000
Security Cameras	204,327
Commerce	
Primary Business Sector Training	2,000,000
Indian Country Econ Development	1,600,000
Main Street Prpogram	250,000
High Performance Computing	500,000
DPHHS	
Medicaid Benefit Hold Harmless Account	(16,984,522)
Total	($9,167,996)

5% Reduction Plan

17-7-111(3) (f), MCA requires that, as part of their budget submissions, agencies with more than 20 FTE submit a plan to reduce base general fund expenditures by 5%. The plan also requires a plan for any state special revenue funds that do not retain their own interest or fund balances. In addition to agencies with 20 or fewer FTE, legislative audit costs and administratively attached entities that hire their own staff are also exempt.

At its June, 2010 meeting, the Legislative Finance Committee (LFC) voted to recommend that the 2011 Legislature adopt as its starting point for budget deliberations the FY 2010 adjusted base minus this 5% reduction plan. In all executive branch agencies not exempted by the Governor, the agencies have included in their plans and the Governor has included in his budget:

1) An ongoing reduction in personal services of 4%; and
2) Any ongoing reductions taken in response to the Governor's application of 17-7-140, MCA[1] in April 2010 that apply to FY 2011 expenditures.

The Governor has also included select other submissions by the agencies in his budget. However, the Governor has not included all 5% reduction plan items submitted by the agencies. Therefore, if the legislature adopts the LFC recommendation, the starting point would be less than the Governor's adjusted base budget, although it may not be less than the total budget submitted by the Governor.

The following shows the reduction plans for general fund and applicable state special revenue by agency for the 2013 biennium. The table also breaks down the plan by the amount included and not included in the executive budget. As shown, adoption of the 5% reduction would reduce the Governor's budget by a further $96.2 million general fund, primarily in K-12 education and human services, and $17.5 million state special revenue.

[1] 17-7-140, MCA authorizes the Governor to order reductions in expenditures for non-exempt executive branch agencies and expenditures if it is certified that the anticipated ending fund balance is projected to be below a statutorily defined threshold. This threshold was certified in April 2010 and the reductions ordered.

5% Reduction Plans
Submitted by Agencies
2013 Biennium
Included and Not Included in the Executive Budget

Section/Agency	General Fund Included	General Fund Not Included	Percent Included	State Special Included	State Special Not Included	Percent Included
Section A						
Legislative Branch	$0	$1,065,760	0.0%	$0	$236,708	0.0%
Consumer Counsel*	--	--	--	--	--	--
Governor's Office	0	560,398	0.0%	0	2,572	0.0%
Secretary of State*	--	--	--	--	--	--
Commissioner of Political Practices*	--	--	--	--	--	--
State Auditor	--	--	--	0	52,724	0.0%
Revenue	116,380	4,827,950	2.4%	0	76,172	0.0%
Administration	592,856	0	100.0%	-43,935	460,390	-10.5%
Commerce	621,383	0	100.0%	0	325,496	0.0%
Labor and Industry	0	230,862	0.0%	0	2,189,936	0.0%
Military Affairs	224,625	335,909	40.1%	0	112,686	0.0%
Total Section A	$1,555,244	$7,020,879	18.1%	($43,935)	$3,456,684	-1.3%
Section B						
Public Health and Human Services*	$14,740,502	$15,603,908	48.6%	$0	$8,229,662	0.0%
Section C						
Fish, Wildlife, and Parks	$0	$0	0.0%	$0	$565,010	0.0%
Environmental Quality	293,485	353,160	45.4%	0	1,464,134	0.0%
Transportation	0	0	0.0%	0	972,230	0.0%
Livestock	66,691	37,925	63.7%	0	0	0.0%
Natural Resources and Conservation	1,727,312	447,164	79.4%	382,955	1,456,477	20.8%
Agriculture	55,588	29,064	65.7%	0	41,234	0.0%
Total Section C	$2,143,076	$867,313	71.2%	$382,955	$4,499,085	7.8%
Section D						
Judicial Branch	$0	$3,392,526	0.0%	$0	$134,486	0.0%
Crime Control*	--	--	--	--	--	--
Justice	712,344	535,037	57.1%	0	640,775	0.0%
Public Service Commission	0	0	0.0%	0	170,613	0.0%
Public Defender	0	990,623	0.0%	0	2,171	0.0%
Corrections	1,203,829	7,041,882	14.6%	0	178,077	0.0%
Total Section D	$1,916,173	$11,960,068	13.8%	$0	$1,126,122	0.0%
Section E						
Office of Public Instruction	$229,756	$55,775,570	0.4%	$0	$97,552	0.0%
Board of Public Education*	--	--	--	--	--	--
School for the Deaf and Blind	154,538	429,027	26.5%	0	0	0.0%
Montana University System	10,305,913	4,305,231	70.5%	0	0	0.0%
Arts Council*	--	--	--	--	--	--
State Library	135,668	135,036	50.1%	0	80,350	0.0%
Historical Society	310,634	12,844	96.0%	0	9,080	0.0%
Total Section E	$11,136,509	$60,657,708	15.5%	$0	$186,982	0.0%

Total Agencies	General Fund	Percent	State Special	Percent
Included in Executive Budget	$31,491,504	24.7%	$339,020	1.9%
Not Included in Executive Budget	96,109,876	75.3%	17,498,535	98.1%
Total	$127,601,380		$17,837,555	

*Exempt either due to FTE levels or because state special revenue sources are exempt.

The 5% plans for each agency are shown and discussed in detail in the individual agency and program narratives in Volumes 1 through 7.

4% PERSONAL SERVICES REDUCTION

As stated in the 5% Reduction Plan and FTE narratives, the Governor has included an ongoing general fund personal services reduction of 4% for most executive branch agencies with FTE funded with general fund. The Governor's proposal essentially reduces most agencies' general fund personal services budgets by the equivalent of 8%, when coupled with the standard 4% vacancy savings rate also recommended. The following shows the total reduction by agency, along with associated FTE reductions, as submitted in the executive budget. Please note that the executive is requesting additional FTE in some of the agencies, and in limited instances the agency is switching funding for FTE from the general fund to another source.

4% General Fund Personal Services Reductions
2013 Biennium Executive Budget
Executive Branch Agencies

Section/Agency	FTE FY 12	FTE FY 13	General Fund 2013 Biennium
Section A			
Governor's Office	0.00	0.00	$0
Secretary of State*	---	---	0
COPP	0.00	0.00	0
State Auditor*	---	---	0
Revenue	0.00	0.00	0
Administration	(1.49)	(1.49)	(318,144)
Commerce	(3.66)	(3.66)	(621,383)
Labor and Industry	(0.88)	(0.88)	(156,916)
Military Affairs	(4.84)	(4.84)	(224,625)
Section B			
Public Health and Human Services	(33.50)	(37.79)	(3,874,300)
Section C			
Fish Wildlife and Parks*	---	---	0
Environmental Quality	(1.85)	(1.85)	(293,485)
Transportation*	---	---	0
Livestock	(0.24)	(0.24)	(22,211)
DNRC	(10.25)	(10.25)	(1,308,618)
Agriculture	(0.62)	(0.62)	(55,588)
Section D			
Crime Control	0.00	0.00	0
Justice	(10.91)	(10.95)	(1,423,680)
PSC*	---	---	0
Public Defender	0.00	0.00	0
Corrections	(20.50)	(20.50)	(2,410,476)
Section E			
OPI	0.00	0.00	0
Board of Public Education	0.00	0.00	0
MSDB	(1.25)	(1.25)	(154,538)
MUS**	(0.97)	(0.97)	(4,512,617)
Arts Council	0.00	0.00	0
Library Commission	(1.50)	(1.50)	(135,668)
Historical Society	(1.31)	(1.31)	(184,525)
Total	(93.77)	(98.10)	($15,696,774)

*Do not have positions supported by the general fund.
**Office staff only. Estimated impact on units agencies is a reduction of 35.78 FTE each year. The Governor is recommending HB 2 language that would require the Board of Regents to provide specific position numbers and FTE by Aug. 1, 2011

The following agencies have general fund positions but did not have any 4% reductions made:

- The Department of Revenue
- The Governor's Office
- Office of the Public Defender
- Commissioner of Political Practices
- Office of Public Instruction
- Board of Public Education

- Montana Arts Council
- Board of Crime Control
- As separate branches of government, the Judicial and Legislative Branches; both branches submitted a 5% reduction plan that may include FTE reductions

This reduction is generally equated with reduced FTE levels in each agency. However, the agency may not yet have determined which specific positions would be eliminated if the proposal is accepted by the legislature. Consequently, the actual impacts of the reductions on operations or services may not be ascertainable without further information. For a further discussion see the individual agency and program narratives in Volumes 3 through 7 of the 2013 Biennium Legislative Fiscal Division Budget Analysis.

In the 2011 biennium, the Governor proposed and the legislature accepted a recommendation to increase vacancy savings in most agencies and for most positions from 4% to 7%, and agency budgets were reduced a further 3%. Consequently, agencies adopted a number of strategies to maintain expenditures within the personal services appropriation, including holding positions open longer before filling them or maintaining an ongoing vacancy. Some of these positions are slated for permanent removal under the 4% reduction.

Therefore, coordination is necessary between the reductions currently proposed in the executive budget and any further reductions to FTE or in vacancy savings the legislature may wish to consider.

FEE CHANGES

The executive budget has only one area of the budget where LFD staff has identified that fee increases will be necessary to generate the amount of state special revenue necessary to fund the executive proposal. It is shown in the figure below. For a further discussion, see the narrative beginning on page C-58 of Volume 5 of the 2013 Biennium LFD Budget Analysis.

Changes in Fees or Charges
Executive Budget 2013 Biennium

		2013 Biennium	
Section/Agency	**Purpose**	**General Fund**	**Other Funds**
Section C - Natural Resources and Transportation			
Environmental Quality	Air Program Operations		$2,089,134

FUND SWITCHES

The following figure shows funding switches proposed by the executive. As shown, the funding switches identified a net general fund gain of $79.2 million over the biennium. Further discussions of each can be found in the respective agency narratives in the appropriate volume of the 2013 Biennium LFD Budget Analysis.

Please note that the table contains only new funding switches proposed by the Governor for the 2013 biennium. The table does not include any replacement of one-time federal stimulus funds with general fund in the Department of Public Health and Human Services, the Office of Public Instruction, or the Office of the Commissioner of Higher Education as allowed by HB 645 from the 2009 Legislative Session.

Major Funding Switches
Executive Budget 2013 Biennium

Section/Agency	Purpose	2013 Biennium General Fund	Other Funds
Section A - General Government			
Department of Administration	Fund public safety services bureau chief with state special	(126,563)	126,563
Department of Administration	Fund local government services bureau chief with proprietary fu	(153,123)	153,123
Military Affairs	Change in federal funding percentage*	(800,000)	800,000
Governor's Office	Citizen's Advocate Office	$19,957	($19,957)
Section C - Natural Resources and Transportation			
Natural Resources & Conservation	Conservation District Funding	(400,000)	400,000
Section E - Education			
Board of Public Education	Board Operating Expenses	15,000	(15,000)
Office of the Commissioner of Highe	Student Financial Assistance Grants	(1,751,600)	1,751,600
OPI	Quality Educator Payment	(76,000,000)	76,000,000
Total		($79,196,329)	$79,196,329

*Approximate. Switch was not requested in a new proposal, but made in the adjusted base.

PROPOSALS WITH INCREASED FUTURE COSTS

The executive has made three recommendations that would cost more money in the 2015 biennium than in the 2013 biennium. Therefore, before acting on any of the proposals shown in the table, the legislature may wish to discuss long-term costs to ensure that future impacts on structural balance can be assessed. Please note that the following figure does not include caseload, population, or enrollment increases.

Governor's Proposals with Increased Future Costs
2013 Biennium Executive Budget
General Fund Costs, Only

Section/Agency	Purpose	2013 Bien General Fund	2015 Bien General Fund
Section D - Judicial Branch, Law Enforcement, and Justice			
Corrections	Secure Custody Population Increase	5,708,600	10,176,200
Corrections	Northwestern Montana Prerelease	1,226,984	2,453,968
Section E - Education			
OPI	Teach Montana	77,271,395	81,361,100
Total		$84,206,979	$93,991,268

*Total combined cost in the 2009 biennium is $5.0 million, while total cost is $25.0 million.
**Does not assume any change in enrollment, GTB, or guarantee account from the 2011 biennium projected level

A further discussion is found in the agency narrative in Volumes 6 and 7.

PROGRAM ELIMINATIONS

The following table shows that the Governor has proposed the complete elimination of three programs in the 2013 biennium. Funding for the Regional Development Program had initially been eliminated in FY 2011.

Governor's Proposals to Eliminate Programs/Functions 2013 Biennium Executive Budget			
Section/Agency	Purpose	2013 Bien General Fund	2013 Bien Other Funds
Section A - General Government			
Department of Commerce	Regional Development Program	(621,383)	
Departmet of Administration	Day Care Program		(82,628)
Section B - Human Services			
DPHHS	Eliminate PACE Program	(628,918)	
Total		($1,250,301)	($82,628)

A further discussion can be found in the individual agency narratives in Volumes 3 and 4.

FTE

The executive would add a net 31.61 FTE in HB 2. The following figure shows the net change in HB 2 FTE proposed by the executive for each agency, by section.

Total Proposed FTE Levels 2013 Biennium Executive Budget						
Section/Agency	Base FY2010	Net Change FY2012	Total FY2012	Net Change FY2013	Total FY2013	Change FY2010-FY2013
Section A*						
Legislative Branch**	134.97	0.00	134.97	5.17	140.14	5.17
Consumer Counsel	5.54	0.00	5.54	0.00	5.54	0.00
Governor's Office	60.07	0.00	60.07	0.00	60.07	0.00
Commissioner of Political Practices	6.00	0.00	6.00	0.00	6.00	0.00
State Auditor	82.50	2.00	84.50	2.00	84.50	2.00
Revenue	657.53	15.00	672.53	15.00	672.53	15.00
Admininstration*	155.12	-1.49	153.63	-1.49	153.63	(1.49)
Commerce*	50.66	5.34	56.00	5.34	56.00	5.34
Labor and Industry	755.10	2.12	757.22	2.12	757.22	2.12
Military Affairs	192.66	1.16	193.82	1.16	193.82	1.16
Section B						
Public Health and Human Services	2,944.93	-1.63	2,943.30	-5.79	2,939.14	(5.79)
Section C						
Fish, Wildlife, and Parks	685.36	15.23	700.59	15.23	700.59	15.23
Environmental Quality	387.29	-1.85	385.44	-1.85	385.44	(1.85)
Tranportation	2,111.26	0.00	2,111.26	0.00	2,111.26	0.00
Livestock	139.50	5.00	144.50	3.26	142.76	3.26
Natural Resources and Conservation	557.69	-12.25	545.44	-12.25	545.44	(12.25)
Agriculture	118.42	1.98	120.40	1.98	120.40	1.98
Section D						
Judicial Branch	410.08	9.50	419.58	12.16	422.24	12.16
Board of Crime Control	19.50	0.50	20.00	0.50	20.00	0.50
Justice	752.05	0.84	752.89	0.80	752.85	0.80
Public Service Commission	39.00	1.00	40.00	1.00	40.00	1.00
Office of the Public Defender	200.50	16.00	216.50	16.00	216.50	16.00
Corrections	1,303.64	-14.50	1,289.14	-14.50	1,289.14	(14.50)
Section E						
Office of Public Instruction	165.86	0.00	165.86	0.00	165.86	0.00
Board of Public Education	4.00	0.00	4.00	0.00	4.00	0.00
School for the Deaf and Blind	88.61	-1.25	87.36	-1.25	87.36	(1.25)
Commissioner of Higher Education***	104.05	-10.17	93.88	-10.17	93.88	(10.17)
Arts Council	7.00	0.00	7.00	0.00	7.00	0.00
State Library	30.50	-1.50	29.00	-1.50	29.00	(1.50)
Historical Society	61.14	-1.31	59.83	-1.31	59.83	(1.31)
Totals	**12,230.53**	**29.72**	**12,260.25**	**31.61**	**12,262.14**	**31.61**
Montana University System****	4,671.59	109.55	4,781.14	0.00	4,781.14	109.55

*The Office of the Secretary of State and a significant number of Department of Administration and Department of Commerce staff are funded with proprietary funds not included in HB 2.
**FY 2013 includes session staff.
***Includes only staff within the Office of the Commissioner of Higher Education.
****FY 2010 is budgeted FY 2010 level

The overall increase in FTE is a result of several increases, partially offset by reductions in FTE as part of the Governor's proposal to reduce ongoing general fund personal services by 4%. The executive is proposing the elimination of 98.10 FTE general fund positions. For a further discussion, see B-8 in this volume.

The major FTE increases are in the following four agencies.

- Revenue – 8.00 FTE for auditing and tax compliance and an additional 5.00 total for tobacco compliance and abandoned property

- Fish, Wildlife and Parks – 4.50 FTE information technology positions currently funded with one-time-only funding to be made permanent, 3.00 FTE to implement an elk brucellosis management strategy, and 6.23 for parks and fishing access site maintenance and operations
- Judicial Branch – 3.00 FTE to make ongoing the Court Help program; 5.00 FTE to annualize the judges and staff added by the 2009 Legislature; and 4.16 FTE to the Water Court, including 3.00 FTE from the Department of Natural Resources and Conservation (DNRC)
- Office of the Public Defender – 15.00 FTE for current caseloads, to reduce managers' caseloads, and for records management and accounts receivable

The major net reductions are the following:

- Public Health and Human Services –The Governor's 4% personal services reduction, partially offset by the addition of: 1) 20.00 FTE to administer Healthy Montana Kids (12.00 one-time FTE made ongoing and an additional 8.00 FTE); 2) 5.00 FTE to expand family planning; 3) 3.50 FTE for medical marijuana program staffing; and 4) 3.50 FTE for asthma control and colorectal cancer screening
- Department of Corrections - The Governor's 4% reduction, partially offset by additional correctional officers and mental health technicians
- Commissioner of Higher Education - A reduction of 9.20 FTE in the Guaranteed Student Loan Program due to a change in federal student loan policy
- DNRC - The Governor's 4% reduction and the transfer of 3.00 FTE to the Water Court.

Detailed descriptions of the decision packages that change FTE are found in the respective agency and program narratives in Volumes 3 through 7 of the 2013 Biennium LFD Budget Analysis.

Other FTE

While HB 2 funds the great majority, FTE are also funded from non-budgeted proprietary funds and statutory appropriations.

In the 2013 biennium the executive budget includes proprietary funding for 1,211.64 FTE in FY 2012 and 1,211.64 FTE in FY 2013, primarily in the Departments of Administration and Transportation and the State Fund.

A total of 79.70 FTE each year are funded with statutory appropriations, primarily in Commerce for Travel Montana and in the Department of Fish, Wildlife and Parks.

FIXED COSTS

In the 2013 biennium, the Governor is recommending an overall reduction of $6.7 million from the 2011 biennium appropriated amount. The figure below illustrates.

Fixed Costs
2013 Biennium Executive Budget (in millions)*

Subcommittee/Agency	Function	2011 Biennium	2013 Biennium	Difference
General Government				
Administration	Insurance and Bonds	24.6	$24.6	$0.0
	Warrant Writing Fees	2.2	1.9	(0.3)
	Human Resources	6.1	5.8	(0.3)
	ITSD	80.6	78.1	(2.5)
	SABHRS Operating	8.9	7.4	(1.5)
	Messenger Services	0.6	0.6	0.0
	Rent - Buildings	21.6	19.3	(2.3)
	Grounds Maintenance	1	1.0	0.0
	Workers Compensation	0.8	0.8	0.0
Legislative Audit Division	Audit Fees	3.6	3.6	0.0
Various	Statewide Cost Allocation	8.3	8.5	0.2
Total		$158.3	$151.6	($6.7)

*All funds, including funds not appropriated in HB 2

As shown, most costs would remain static or be reduced. The most notable reductions are in the Information Technology Services Division (ITSD) and in capitol complex rent.

In the 2011 biennium ITSD went to an activity-based budgeting system that charges agencies for the information technology services in a way that more closely relates to the actual services used by each individual user. There is also a reallocation of costs to smaller agencies that had been subsidized by larger agencies in the past. The subsidy would be eliminated when services that were bundled under one fee in the 2011 biennium are provided separately under unique fees in the 2013 biennium. Because the costs for the unbundled services are no longer determined by the size of the data being managed, but by the costs to provide the function, costs are being allocated more accurately to the agencies purchasing the services and a shift in allocation has resulted. Further information that shows the allocation changes for all agencies is contained in the narrative for ITSD in Volume 3 page A-184.

With rent, certain ongoing maintenance will be delayed, such as painting, grass cutting, and the like. If the delay is continued for more than one biennium, the risks of damage or more expensive repair and maintenance requirements will increase.

Risks associated with fixed cost allocations of the Governor's recommendations include:

- Budget reductions that result in agency usage of fixed cost services materially lower than usage rates assumed in rate calculations could under fund costs of service providers that are fixed regardless of the service volumes

- o If insurance claims are higher than anticipated, reserves may not be sufficient to fund claim payments
- o Long-term neglect of facility maintenance issues could cause higher costs to restore facilities

For an explanation of each of the fixed costs, see "Budget Basics" in the "Reference" volume online. Further information is also contained within the narrative for each agency in Volumes 3 through 7.

SUPPLEMENTAL APPROPRIATIONS

The executive is proposing $2.85 million in general fund and $0.95 million in other funds in supplemental appropriations for FY 2011. Please note that at the time of this writing the Department of Corrections had indicated it would mitigate any potential supplemental and no funds would be requested. The $900,000 general fund is included in all general fund in this discussion for reference and until the executive officially removes the proposal from his budget.

The figure shows supplemental appropriations since the 1987 biennium.

As shown, the level of supplemental appropriations request is the lowest supplemental amount requested over this time period. Please note that the request includes no funding for fire suppression. Fire costs, which were low in the 2011 biennium, were funded from the fire suppression state special revenue account.

General Fund Supplementals 1987 to 2011 Biennium

Biennium	Millions
1987	$32.7
1989	17.1
1991	20.4
1993	82.2
1995	19.9
1997	14.2
1999	11.5
2001	68.2
2003	12.5
2005	12.7
2007	76.4
2009	3.5
2011*	2.9

*Includes $900,000 for the Department of Corrections that may be withdrawn by the executive.

The following details the FY 2001 1executive request. The figure is followed by a brief description of each.

Supplemental Appropriations Requests Executive Budget - 2011 Biennium

Agency/Program	General Fund	Other Funds
Office of Public Instruction		
Tuition	$330,000	
Pupil Transportation	300,000	
Department of Administration		
VEBA	470,767	
Lottery		950,000
Office of the Public Defender		
Operations	850,000	
Department of Corrections*		
Operations	900,000	
Total	$2,850,767	$950,000

- Office of Public Instruction - $330,000 general fund for state tuition payments under 20-5-324(2)(a), MCA due to increased tuition obligation requests from K-12 school districts and $300,000 for pupil transportation payments
- Department of Administration, Health Care and Benefits Division - $470,767 for Voluntary Employee Benefits Association (VEBA) plan loan and associated interest repayment
- Office of the Public Defender - $850,000 general fund for operational expenses
- Montana Lottery - $950,000 proprietary funds due to additional ticket sales and prize and commission expenses. Because the lottery deposits remaining balance in the proprietary account to the general fund, this supplemental has a direct general fund impact
- Department of Corrections - $900,000 general fund for operating costs and vacancy savings. At the time of this writing the department had indicated it would not request these funds

A further discussion of each supplemental request is included in the individual agency narratives in the appropriate volumes of the 2013 Biennium Legislative Fiscal Division Budget Analysis.

Agency Budget Comparisons by Fund

This section provides a comparison, by agency, of the Governor's executive budget recommendations for HB 2 as compared to the 2011 biennium. For each fund type, a table shows the comparison by agency. Also included for each fund type is a pie chart showing the amount and percent of each fund by major program area, and a bar graph that shows the percentage increase by major program area. The narrative describes the primary reasons for the budget changes, by fund type.

General Fund

As defined in 17-2-102, MCA, the general fund "accounts for all financial resources except those required to be accounted for in another fund." The general fund provides funding for the general operations of state government.

Please note that in this and the following sections, both the discussion and the figures include ongoing funding, only. As shown in Figure 1, the general fund would increase by $322.1 million, or 10.7%.

Primary increases include:

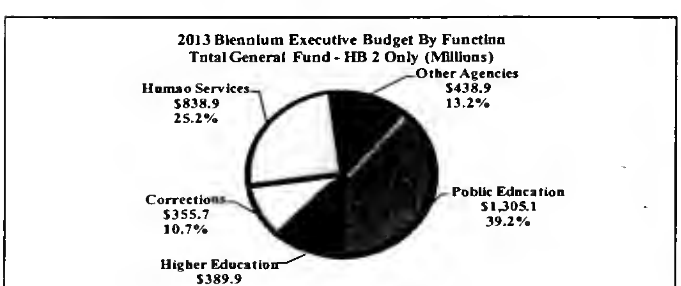
- Office of Public Instruction – Replacement of one-time federal and coal lease payments, inflationary increases, restoration of at-risk payments, and continuance of FY 2011 entitlement funding levels; partially offset by funding switches from general fund to state special revenue for the quality educator and school facility payments
- Commissioner of Higher Education – Replacement of one-time federal funds, enrollment increases, a new initiative that provides an unspecified increase for the

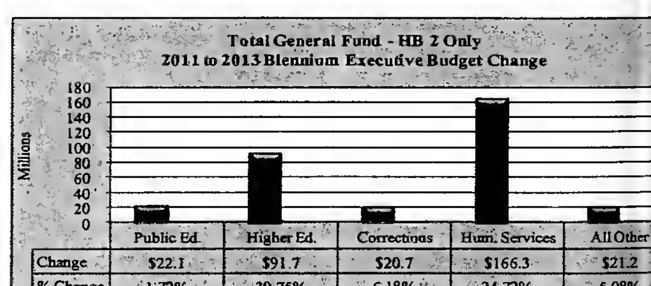
university units, and an increase in the state funded share of various increases; partially offset by a general reduction
- Department of Public Health and Human Services - Medicaid caseload and utilization increases, an increase in the percentage of Medicaid expenditures that must be paid for by the state (FMAP), and replacement of temporary 2011 biennium federal funds with general fund; partially offset by replacement of general fund with the Medicaid hold-harmless funds available due to federal stimulus legislation
- Department of Corrections – Conversion of existing space to house secure care inmates, and additional community corrections beds
- Office of the Public Defender – Additional staff to reduce caseloads
- All Agencies - Statewide present law adjustments, particularly fully funding personal services (minus a 4% vacancy savings rate), partially offset by a 4% reduction in most agencies' general fund personal services

Figure 1

Fund Comparison
2011 Biennium versus Executive Budget Proposal 2013 Biennium

General Fund House Bill 2 Proposals Agency Number and Name	Adjusted Base FY2010	Adjusted Authorized FY2011	Adjusted Total FY10-11	Executive Budget FY2012	Executive Budget FY2013	Executive Budget FY12-13	Biennial Change	Biennial Percent
1104 Legislative Branch	10,671,264	12,745,186	23,416,450	11,763,554	12,140,721	23,904,275	487,825	2.1%
2110 Judicial Branch	33,937,675	35,467,158	69,404,833	36,952,194	37,020,776	73,972,970	4,568,137	6.6%
3101 Governor's Office	5,946,921	6,136,573	12,083,494	6,057,949	5,991,819	12,049,768	(33,726)	-0.3%
3202 Comm Of Political Practices	433,817	457,853	891,670	571,855	566,616	1,138,471	246,801	27.7%
3501 Office Of Public Instruction	560,053,258	722,904,404	1,282,957,662	650,266,733	654,798,000	1,305,064,733	22,107,071	1.7%
4107 Crime Control Division	2,351,300	2,386,384	4,737,684	2,456,750	2,384,634	4,841,384	103,700	2.2%
4110 Department Of Justice	24,957,152	25,938,858	50,896,010	27,208,028	27,206,970	54,414,998	3,518,988	6.9%
5101 Board Of Public Education	198,333	227,589	425,922	228,017	233,385	461,402	35,480	8.3%
5102 Commissioner Of Higher Education	147,531,701	150,674,815	298,206,516	193,828,002	196,104,759	389,932,761	91,726,245	30.8%
5113 School For The Deaf & Blind	5,865,460	5,953,456	11,818,916	6,000,578	5,967,474	11,968,052	149,136	1.3%
5114 Montana Arts Council	465,294	463,194	928,488	454,845	445,255	900,100	(28,388)	-3.1%
5115 Montana State Library	2,722,517	2,787,459	5,509,976	2,721,573	2,705,797	5,427,370	(82,606)	-1.5%
5117 Montana Historical Society	2,641,116	2,761,337	5,402,453	2,878,024	2,835,068	5,713,092	310,639	5.7%
5301 Department Of Environmental Quality	5,341,202	5,443,674	10,784,876	5,466,101	5,469,117	10,935,218	150,342	1.4%
5401 Department Of Transportation	-	-	-	-	-	-	-	
5603 Department Of Livestock	1,046,160	1,111,118	2,157,278	1,556,825	1,406,989	2,963,814	806,536	37.4%
5706 Dept Of Natural Resources & Conservation	21,831,342	22,453,450	44,284,792	23,133,278	23,155,910	46,289,188	2,004,396	4.5%
5801 Department Of Revenue	49,569,692	50,171,670	99,741,362	49,609,233	49,570,431	99,179,664	(561,698)	-0.6%
6101 Department Of Administration	6,054,826	6,212,547	12,267,373	6,426,155	6,198,509	12,624,664	357,291	2.9%
6108 Office Of The Public Defender	19,849,276	19,571,843	39,421,119	21,707,345	21,661,333	43,368,678	3,947,559	10.0%
6201 Department Of Agriculture	880,007	1,020,580	1,900,587	1,336,381	1,288,028	2,624,409	723,822	38.1%
6401 Department Of Corrections	165,758,162	169,198,753	334,956,915	175,317,022	180,351,473	355,668,495	20,711,580	6.2%
6501 Department Of Commerce	2,598,996	2,692,843	5,291,839	5,011,683	5,012,435	10,024,118	4,732,279	89.4%
6602 Department Of Labor & Industry	2,308,627	2,612,713	4,921,340	2,417,105	2,427,988	4,845,093	(76,247)	-1.5%
6701 Department Of Military Affairs	5,612,637	5,825,156	11,437,793	5,622,291	5,613,922	11,236,213	(201,580)	-1.8%
6902 Economic Security Services Branch	69,002,422	75,171,198	144,173,620	72,633,319	74,300,242	146,933,561	2,759,941	1.9%
6904 Director's Office	1,992,454	1,604,573	3,597,027	1,638,989	1,637,808	3,276,797	(320,230)	-8.9%
6906 Operations Services Branch	15,604,180	14,472,372	30,076,552	15,386,374	15,535,585	30,921,959	845,407	2.8%
6907 Public Health	3,396,584	3,492,167	6,888,751	3,365,526	3,363,129	6,728,655	(160,096)	-2.3%
6911 Medicaid And Health Services Branch	213,499,708	274,336,885	487,836,593	329,707,772	321,378,594	651,086,366	163,249,773	33.5%
Total House Bill 2 Proposals	**$1,382,122,083**	**$1,624,295,808**	**$3,006,417,891**	**$1,661,723,501**	**$1,666,772,767**	**$3,328,496,268**	**$322,078,377**	**10.7%**
Long-Range Building Proposals							-	
Miscellaneous Proposals	1,130	-	1,130	16,864,755	12,535,947	29,400,702	29,399,572	2601732.0%
Transfers	-	-	-	16,417,006	12,858,078	29,275,084	29,275,084	
Statutory Recommendations	169,526,415	170,341,305	339,867,720	185,726,256	192,175,146	377,901,402	38,033,682	11.2%
Total Executive Recommendations	**$1,551,649,628**	**$1,794,637,113**	**$3,346,286,741**	**$1,880,731,518**	**$1,884,341,938**	**$3,765,073,456**	**$418,786,715**	**12.5%**





State Special Revenue

As defined in 17-2-102, MCA, the state special fund "consists of money from state and other non-federal sources deposited in the state treasury that is earmarked for the purposes of defraying particular costs of an agency, program, or function of state government and money from other non-state or non-federal sources that is restricted by law or by the terms of an agreement, such as a contract, trust agreement, or donation."

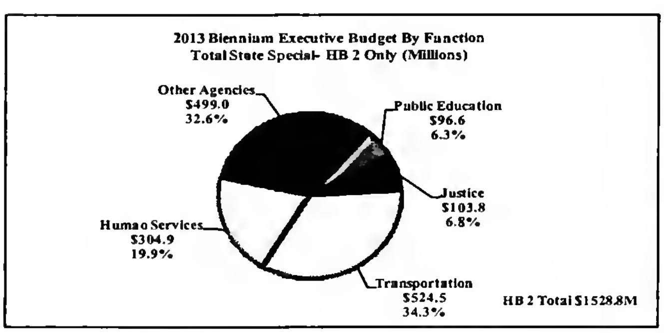
State special revenue would increase by $274.4 million, or 21.9%. Proposed increases are widespread across state government. However, three agencies account for 81.4% of the total increase.

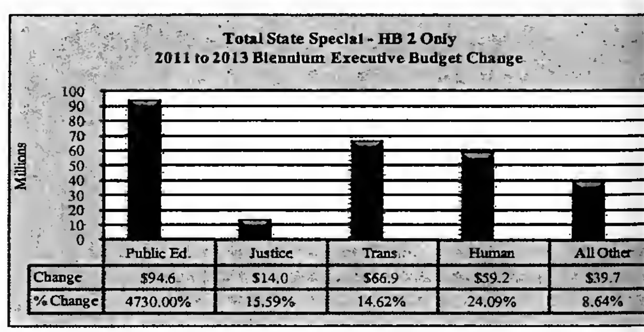
- Office of Public Instruction – Funding switches for the quality educator payment from the general fund to oil and gas revenues (Teach Montana fund), and for school facility payments from general fund to the facility and technology fund
- Department of Transportation – A fourfold increase in the state funded construction program
- Department of Public Health and Human Services – Use of the Medicaid hold-harmless funds available due to 2011 biennium federal stimulus funds, additional Healthy Montana Kids enrollment and expansion populations, and additional hospital and nursing home utilization fund authority

Figure 2

Fund Comparison
2011 Biennium versus Executive Budget Proposal 2013 Biennium

State/other Special Rev. Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY 2010	Adjusted Authorized FY 2011	Adjusted Total FY 10-11	Executive Budget FY 2012	Executive Budget FY 2013	Executive Budget FY 12-13	Biennial Change	Biennial Percent
1104 Legislative Branch	2,363,532	2,288,667	4,652,199	2,668,208	2,022,804	4,691,012	38,813	0.8%
1112 Consumer Council	939,248	1,393,320	2,332,568	1,637,219	1,640,873	3,278,092	945,524	40.5%
2110 Judicial Branch	1,922,472	2,305,683	4,228,155	2,259,135	2,452,283	4,711,418	483,263	11.4%
3101 Governor's Office	25,713	32,500	58,213	12,474	12,409	24,883	(33,330)	-57.3%
3401 State Auditor's Office	16,755,749	18,995,348	35,751,097	19,222,899	18,877,978	38,100,877	2,349,780	6.6%
3501 Office Of Public Instruction	975,513	979,051	1,954,564	48,018,021	48,610,569	96,628,590	94,674,026	4843.7%
4107 Crime Control Division	37,595	291,808	329,403	152,736	152,736	305,472	(23,931)	-7.3%
4110 Department Of Justice	41,651,649	48,102,143	89,753,792	52,019,150	51,762,341	103,781,491	14,027,699	15.6%
4201 Public Service Regulation	3,420,213	3,669,577	7,089,790	3,597,432	3,547,660	7,145,092	55,302	0.8%
5101 Board Of Public Education	186,050	185,632	371,682	172,920	173,322	346,242	(25,440)	-6.8%
5102 Commissioner Of Higher Education	19,535,696	18,236,611	37,772,307	19,827,019	21,274,458	41,101,477	3,329,170	8.8%
5113 School For The Deaf & Blind	333,818	348,929	682,747	268,731	268,919	537,650	(145,097)	-21.3%
5114 Montana Arts Council	212,426	215,074	427,500	204,342	201,903	406,245	(21,255)	-5.0%
5115 Montana State Library	803,498	803,523	1,607,021	807,098	803,498	1,610,596	3,575	0.2%
5117 Montana Historical Society	90,795	139,710	230,505	91,082	91,082	182,164	(48,341)	-21.0%
5201 Department Of Fish, Wildlife & Parks	54,070,860	55,648,120	109,718,980	57,552,965	57,525,124	115,078,089	5,359,109	4.9%
5301 Department Of Environmental Quality	22,692,262	30,740,283	53,432,545	31,133,319	31,136,611	62,269,930	8,837,385	16.5%
5401 Department Of Transportation	199,536,189	258,100,949	457,637,138	262,436,600	262,091,900	524,528,500	66,891,362	14.6%
5603 Department Of Livestock	7,325,213	7,574,506	14,899,719	8,750,930	8,662,951	17,413,881	2,514,162	16.9%
5706 Dept Of Natural Resources & Conservation	24,837,687	26,886,999	51,724,686	27,487,205	27,495,450	54,982,655	3,257,969	6.3%
5801 Department Of Revenue	761,721	815,907	1,577,628	1,182,824	1,179,757	2,362,581	784,953	49.8%
6101 Department Of Administration	6,508,794	7,884,856	14,393,650	7,117,969	7,111,969	14,229,938	(163,712)	-1.1%
6108 Office Of The Public Defender	43,418	43,456	86,874	137,885	109,712	247,597	160,723	185.0%
6201 Department Of Agriculture	10,561,977	12,708,587	23,270,564	12,248,172	11,597,451	23,845,623	575,059	2.5%
6401 Department Of Corrections	3,561,540	4,086,930	7,648,470	3,959,153	3,950,588	7,909,741	261,271	3.4%
6501 Department Of Commerce	4,216,567	6,178,304	10,394,871	7,333,031	7,300,737	14,633,768	4,238,897	40.8%
6602 Department Of Labor & Industry	35,856,229	38,237,903	74,094,132	40,334,522	40,459,781	80,794,303	6,700,171	9.0%
6701 Department Of Military Affairs	1,127,398	1,393,170	2,520,568	1,383,886	1,366,373	2,750,259	229,691	9.1%
6902 Economic Security Services Branch	6,520,447	7,487,049	14,007,496	8,280,064	8,275,571	16,555,635	2,548,139	18.2%
6904 Director's Office	439,899	308,235	748,134	385,118	385,240	770,358	22,224	3.0%
6906 Operations Services Branch	1,966,753	2,068,890	4,035,643	2,480,179	2,551,483	5,031,662	996,019	24.7%
6907 Public Health	18,024,188	18,776,019	36,800,207	18,418,989	18,425,864	36,844,853	44,646	0.1%
6911 Medicaid And Health Services Branch	91,819,929	98,288,875	190,108,804	113,151,477	132,496,137	245,647,614	55,538,810	29.2%
Total House Bill 2 Proposals	**579,125,038**	**$675,216,614**	**$1,254,341,652**	**$754,732,754**	**$774,015,534**	**$1,528,748,288**	**$274,406,636**	**21.9%**
Long-Range Building Proposals								
Miscellaneous Proposals	-	-	-	4,060,008	5,734,861	9,794,869	9,794,869	
Transfers	-	-	-	-	-	-	-	
Statutory Recommendations	330,354,454	150,080,008	480,434,462	272,730,623	284,771,382	557,502,005	77,067,543	16.0%
Total Executive Recommendations	**$909,479,492**	**$825,296,622**	**$1,734,776,114**	**$1,031,523,385**	**$1,064,521,777**	**$2,096,045,162**	**$361,269,048**	**20.8%**





Federal Special Revenue

As defined in 17-2-102, MCA, the federal special fund "consists of money deposited in the treasury from federal sources, including trust income that is used for the operation of state government."

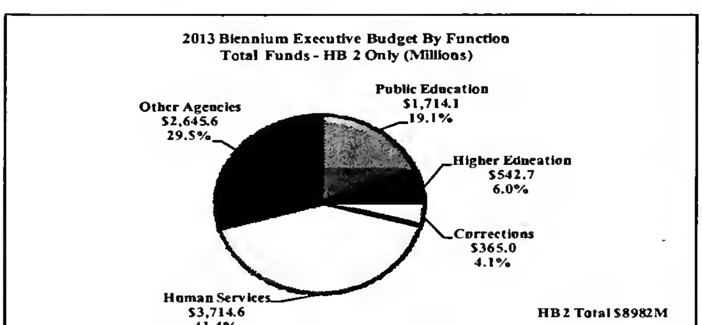
Federal funds increase by $557.8 million, or 15.8%. Most agencies receive some federal funds. However, the Departments of Public Health and Human Services and Transportation account for over 83% of the federal funds proposed in the Governor's budget and would receive over 100% of the proposed additions, partially offset by two major reductions.

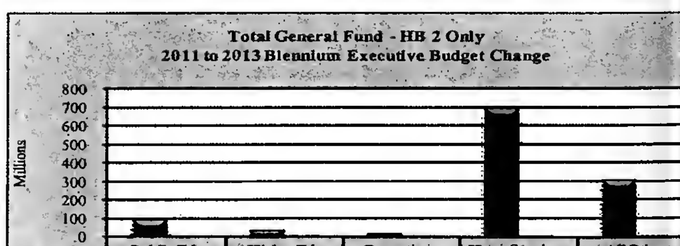
- Department of Public Health and Human Services - Caseload and utilization increases, including Medicaid and SNAP (food stamps), along with other federal grants, partially offset by a reduction in the amount of Medicaid expenditures paid for by the federal government (FMAP) and replacement of one-time federal Medicaid enhanced match rate with general fund
- Department of Transportation - General increases in funding, primarily for highway construction

Major reductions in K-12 and higher education are due primarily to replacement of one-time federal money available due to federal stimulus legislation in the 2011 biennium.

Figure 3

Fund Comparison 2011 Biennium versus Executive Budget Proposal 2013 Biennium								
Federal Spec. Rev. Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY2010	Adjusted Authorized FY2011	Adjusted Total FY10-11	Executive Budget FY2012	Executive Budget FY2013	Executive Budget FY12-13	Biennial Change	Biennial Percent
2110 Judicial Branch	122,177	125,649	247,826	122,932	122,989	245,921	(1,905)	-0.8%
3101 Governor's Office	-	-	-	-	-	-	-	
3201 Secretary Of State's Office	-	-	-	550,000	-	550,000	550,000	
3501 Office Of Public Instructioo	160,781,659	172,321,070	333,102,729	154,383,951	158,030,732	312,414,683	(20,688,046)	-6.2%
4107 Crime Control Division	3,624,376	14,256,165	17,880,541	6,690,521	6,694,171	13,384,692	(4,495,849)	-25.1%
4110 Department Of Justice	1,405,530	1,760,313	3,165,843	1,492,068	1,493,495	2,985,563	(180,280)	-5.7%
4201 Puhlic Service Regulatioo	25,473	25,643	51,116	106,511	105,434	211,945	160,829	314.6%
5102 Commissioner Of Higher Education	73,082,748	95,891,892	168,974,640	52,836,718	58,643,414	111,480,132	(57,494,508)	-34.0%
5113 School For The Deaf & Blind	79,206	82,973	162,179	82,057	82,057	164,114	1,935	1.2%
5114 Montana Arts Council	596,472	602,524	1,198,996	802,113	802,900	1,605,013	406,017	33.9%
5115 Montana State Library	1,145,593	1,060,155	2,205,748	1,608,026	608,026	2,216,052	10,304	0.5%
5117 Mootana Historical Society	659,333	671,859	1,331,192	760,618	765,318	1,525,936	194,744	14.6%
5201 Department Of Fish, Wildlife & Parks	14,942,150	15,348,245	30,290,395	15,846,816	15,851,066	31,697,882	1,407,487	4.6%
5301 Department Of Environmental Quality	18,333,719	23,017,600	41,351,319	21,627,400	21,617,224	43,244,624	1,893,305	4.6%
5401 Department Of Transportation	297,325,273	366,696,500	664,021,773	415,870,548	415,229,508	831,100,056	167,078,283	25.2%
5603 Department Of Livestock	1,464,601	1,808,842	3,273,443	1,635,920	1,608,875	3,244,795	(28,648)	-0.9%
5706 Dept Of Natural Resources & Conservation	1,884,350	2,075,894	3,960,244	2,051,194	2,055,409	4,106,603	146,359	3.7%
5801 Department Of Revenue	204,942	206,447	411,389	270,210	271,218	541,428	130,039	31.6%
6101 Department Of Administration	42,043	48,739	90,782	42,043	42,043	84,086	(6,696)	-7.4%
6108 Office Of The Public Defender	-	-	-	-	-	-	-	
6201 Department Of Agriculture	2,111,490	2,390,235	4,501,725	2,328,952	2,329,665	4,658,617	156,892	3.5%
6401 Department Of Corrections	20,872	134,068	154,940	20,872	20,872	41,744	(113,196)	-73.1%
6501 Department Of Commerce	14,015,061	21,958,907	35,973,968	16,066,675	16,763,104	32,829,779	(3,144,189)	-8.7%
6602 Department Of Labor & Industry	30,767,415	32,047,983	62,815,398	35,032,341	34,980,370	70,012,711	7,197,313	11.5%
6701 Departmeot Of Military Affairs	24,909,942	33,555,935	58,465,877	25,957,489	25,961,071	51,918,560	(6,547,317)	-11.2%
6902 Ecnnomic Security Services Branch	250,222,580	263,483,905	513,706,485	384,249,059	426,271,292	810,520,351	296,813,866	57.8%
6904 Director's Office	2,320,308	1,836,471	4,156,779	1,955,600	1,955,018	3,910,618	(246,161)	-5.9%
6906 Operations Services Branch	22,891,618	22,802,479	45,694,097	23,952,727	24,138,496	48,091,223	2,397,126	5.2%
6907 Public Health	38,742,988	45,232,983	83,975,971	40,596,849	40,597,387	81,194,236	(2,781,735)	-3.3%
6911 Medicaid And Health Services Branch	728,167,173	723,934,949	1,452,102,122	799,054,374	828,058,163	1,627,112,537	175,010,415	12.1%
Total House Bill 2 Proposals	**$1,689,889,092**	**$1,843,378,425**	**$3,533,267,517**	**$2,005,994,584**	**$2,085,099,317**	**$4,091,093,901**	**$557,826,384**	**15.8%**
Long-Range Building Proposals								
Miscellaneous Proposals	18,000	25,779,699	25,797,699	1,152,388	3,272,346	4,424,734	(21,372,965)	-82.8%
Transfers	-	-	-	-	-	-	-	
Statutory Recommendations	40,848,435	42,381,811	83,230,246	41,514,267	41,641,512	83,155,779	(74,467)	-0.1%
Total Executive Recommendations	**$1,730,755,527**	**$1,911,539,935**	**$3,642,295,462**	**$2,048,661,239**	**$2,130,013,175**	**$4,178,674,414**	**$536,378,952**	**14.7%**





	Public Ed.	Higher Ed.	Corrections	Hum. Services	All Other
Change	$96.1	$37.6	$21.0	$696.7	$309.6
% Change	5.94%	7.44%	6.10%	23.09%	13.25%

Capital Projects Funds

As defined in 17-7-102, MCA, capital projects funds account "...for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds..."

Capital projects funds in the Department of Justice are for debt payments for the Merlin system. These funds should have been coded to debt service.

Figure 4

Fund Comparison
2011 Biennium versus Executive Budget Proposal 2013 Biennium

Capital Projects Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY2010	Adjusted Authorized FY2011	Adjusted Total FY10-11	Biennial Change	Biennial Percent
4110 Department Of Justice	-	-	-	4,500,000	
6101 Department Of Administration	-	-	-	-	
Total House Bill 2 Proposals	$0	$0	$0	$4,500,000	
Long-Range Building Proposals					
Miscellaneous Proposals	-	-	-	-	
Transfers	-	-	-	-	
Statutory Recommendations	62,976	-	62,976	713,939	1133.7%
Total Executive Recommendations	$62,976	$0	$62,976	$5,213,939	8279.2%

Proprietary Funds

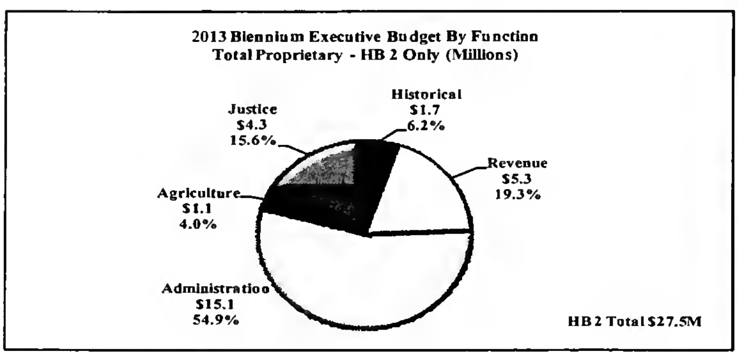
As defined in 17-7-102, MCA, proprietary funds are designated as either enterprise or internal service funds. Enterprise funds "account for operations: (A) that are financed and operated in a manner similar to private business enterprises whenever the intent of the legislature is that costs (i.e. expenses, including depreciation) of providing goods or services to that general public on a continuing basis are to be financed or recovered primarily through user charges; or (B) whenever the legislature has decided that periodic determination of revenue earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes." Internal service funds "account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost reimbursed basis."

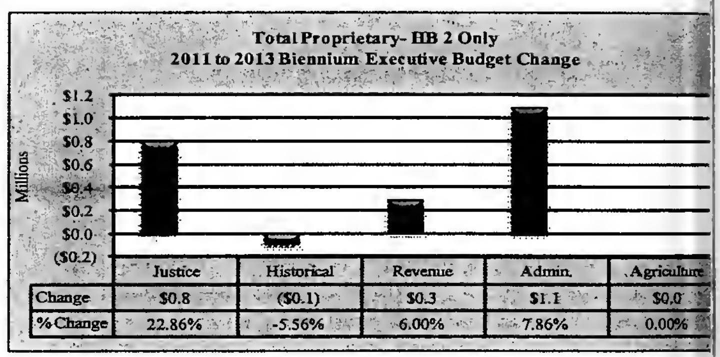
Statute does not require that most proprietary funds be appropriated. Therefore, any increases in the programs supported with these proprietary funds are not reflected in the table.

Budgeted proprietary funds in the Department of Administration would increase due primarily to increased lottery payments.

Figure 5

Fund Comparison 2011 Biennium versus Executive Budget Proposal 2013 Biennium Proprietary Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY2010	Adjusted Authorized FY2011	Adjusted Total FY10-11	Executive Budget FY2012	Executive Budget FY2013	Executive Budget FY12-13	Biennial Change	Biennial Percent
3101 Governor's Office	-	-	-	-	-	-	-	
3401 State Auditor's Office	-	-	-	-	-	-	-	
4110 Department Of Justice	1,759,217	1,787,882	3,547,099	2,315,259	1,962,264	4,277,523	730,424	20.6%
5102 Commissioner Of Higher Education	80,416	99,523	179,939	74,379	74,422	148,801	(31,138)	-17.3%
5115 Montana State Library	-	17,241	17,241	-	-	-	(17,241)	-100.0%
5117 Montana Historical Society	811,536	972,102	1,783,638	843,186	841,773	1,684,959	(98,679)	-5.5%
5201 Department Of Fish, Wildlife & Parks	-	-	-	-	-	-	-	
5401 Department Of Transportation	-	-	-	-	-	-	-	
5801 Department Of Revenue	2,428,350	2,560,118	4,988,468	2,630,617	2,636,480	5,267,097	278,629	5.6%
6101 Department Of Administration	7,295,069	6,661,211	13,956,280	7,587,837	7,487,050	15,074,887	1,118,607	8.0%
6201 Department Of Agriculture	499,958	617,540	1,117,498	571,940	576,288	1,148,228	30,730	2.7%
6401 Department Of Corrections	608,123	654,058	1,262,181	689,459	689,154	1,378,613	116,432	9.2%
6602 Department Of Labor & Industry	56,725	100,279	157,004	88,410	88,517	176,927	19,923	12.7%
Total House Bill 2 Proposals	**$13,539,394**	**$13,469,954**	**$27,009,348**	**$14,801,087**	**$14,355,948**	**$29,157,035**	**$2,147,687**	**8.0%**
Long-Range Building Proposals								
Miscellaneous Proposals	-	1,210,731	1,210,731	124,163	121,612	245,775	(964,956)	-79.7%
Transfers	-	-	-	-	-	-	-	
Statutory Recommendations	33,363,646	39,127,640	72,491,286	36,400,880	36,639,880	73,040,760	549,474	0.8%
Total Executive Recommendations	**$46,903,040**	**$53,808,325**	**$100,711,365**	**$51,326,130**	**$51,117,440**	**$102,443,570**	**$1,732,205**	**1.7%**



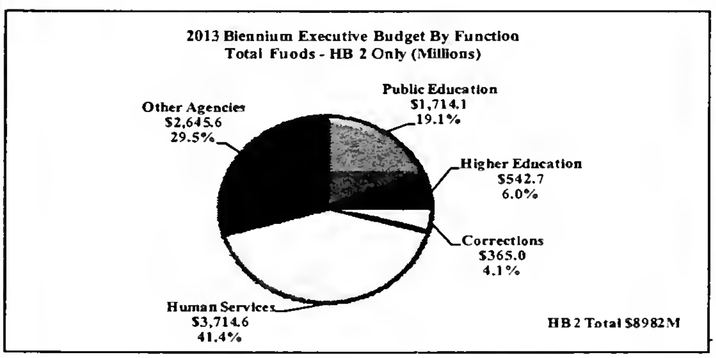


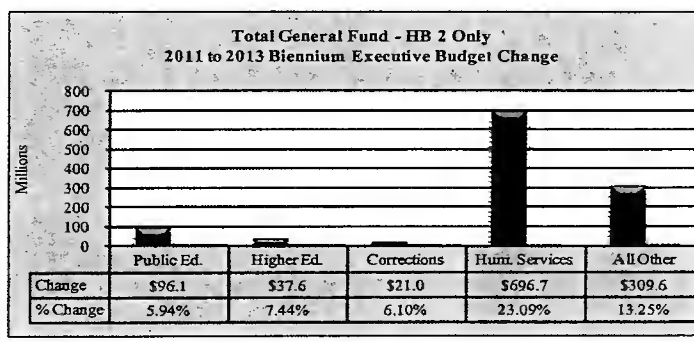
All Funds

The following figure is a composite by agency of the preceding tables, and shows a $1,161.0 million or 14.8% increase in total funds.

Fund Comparison
2011 Biennium versus Executive Budget Proposal 2013 Biennium

Total Funds House Bill 2 Proposals Agency Number and Name	Adjusted Base FY2010	Adjusted Authorized FY2011	Adjusted Total FY10-11	Executive Budget FY2012	Executive Budget FY2013	Executive Budget FY12-13	Biennial Change	Biennial Percent
1104 Legislative Branch	13,034,796	15,033,853	28,068,649	14,431,762	14,163,525	28,595,287	526,638	1.9%
1112 Consumer Council	939,248	1,393,320	2,332,568	1,637,219	1,640,873	3,278,092	945,524	40.5%
2110 Judicial Branch	35,982,324	37,898,490	73,880,814	39,334,261	39,596,048	78,930,309	5,049,495	6.8%
3101 Governor's Office	5,972,634	6,169,073	12,141,707	6,070,423	6,004,228	12,074,651	(67,056)	-0.6%
3201 Secretary Of State's Office	-	-	-	550,000	-	550,000	550,000	
3202 Comm Of Political Practices	433,817	457,853	891,670	571,855	566,616	1,138,471	246,801	27.7%
3401 State Auditor's Office	16,755,749	18,995,348	35,751,097	19,222,899	18,877,978	38,100,877	2,349,780	6.6%
3501 Office Of Public Instruction	721,810,430	896,204,525	1,618,014,955	852,668,705	861,439,301	1,714,108,006	96,093,051	5.9%
4107 Crime Control Division	6,013,271	16,934,357	22,947,628	9,300,007	9,231,541	18,531,548	(4,416,080)	-19.2%
4110 Department Of Justice	69,773,548	77,589,196	147,362,744	85,284,505	84,675,070	169,959,575	22,596,831	15.3%
4201 Public Service Regulation	3,445,686	3,695,220	7,140,906	3,703,943	3,653,094	7,357,037	216,131	3.0%
5101 Board Of Public Education	384,383	413,221	797,604	400,937	406,707	807,644	10,040	1.3%
5102 Commissioner Of Higher Education	240,230,561	264,902,841	505,133,402	266,566,118	276,097,053	542,663,171	37,529,769	7.4%
5113 School For The Deaf & Blind	6,278,484	6,385,358	12,663,842	6,351,366	6,318,450	12,669,816	5,974	0.0%
5114 Montana Arts Council	1,274,192	1,280,792	2,554,984	1,461,300	1,450,058	2,911,358	356,374	13.9%
5115 Montana State Library	4,671,608	4,668,378	9,339,986	5,136,697	4,117,321	9,254,018	(85,968)	-0.9%
5117 Montana Historical Society	4,202,780	4,545,008	8,747,788	4,572,910	4,533,241	9,106,151	358,363	4.1%
5201 Department Of Fish, Wildlife & Parks	69,013,010	70,996,365	140,009,375	73,399,781	73,376,190	146,775,971	6,766,596	4.8%
5301 Department Of Environmental Quality	46,367,183	59,201,557	105,568,740	58,226,820	58,222,952	116,449,772	10,881,032	10.3%
5401 Department Of Transportation	496,861,462	624,797,449	1,121,658,911	678,307,148	677,321,408	1,355,628,556	233,969,645	20.9%
5603 Department Of Livestock	9,835,974	10,494,466	20,330,440	11,943,675	11,678,815	23,622,490	3,292,050	16.2%
5706 Dept Of Natural Resources & Conservation	48,553,379	51,416,343	99,969,722	52,671,677	52,706,769	105,378,446	5,408,724	5.4%
5801 Department Of Revenue	52,964,705	53,754,142	106,718,847	53,692,884	53,657,886	107,350,770	631,923	0.6%
6101 Department Of Administration	19,900,732	20,807,353	40,708,085	21,174,004	20,839,571	42,013,575	1,305,490	3.2%
6108 Office Of The Public Defender	19,892,694	19,615,299	39,507,993	21,845,230	21,771,045	43,616,275	4,108,282	10.4%
6201 Department Of Agriculture	14,053,432	16,736,942	30,790,374	16,485,445	15,791,432	32,276,877	1,486,503	4.8%
6401 Department Of Corrections	169,948,697	174,073,809	344,022,506	179,986,506	185,012,087	364,998,593	20,976,087	6.1%
6501 Department Of Commerce	20,830,624	30,830,054	51,660,678	28,411,389	29,076,276	57,487,665	5,826,987	11.3%
6602 Department Of Labor & Industry	68,988,996	72,998,878	141,987,874	77,872,378	77,956,656	155,829,034	13,841,160	9.7%
6701 Department Of Military Affairs	31,649,977	40,774,261	72,424,238	32,963,666	32,941,366	65,905,032	(6,519,206)	-9.0%
6902 Economic Security Services Branch	325,745,449	346,142,152	671,887,601	465,162,442	508,847,105	974,009,547	302,121,946	45.0%
6904 Director's Office	4,752,661	3,749,279	8,501,940	3,979,707	3,978,066	7,957,773	(544,167)	-6.4%
6906 Operations Services Branch	40,462,551	39,343,741	79,806,292	41,819,280	42,225,564	84,044,844	4,238,552	5.3%
6907 Public Health	60,163,760	67,501,169	127,664,929	62,381,364	62,386,380	124,767,744	(2,897,185)	-2.3%
6911 Medicaid And Health Services Branch	1,033,486,810	1,096,560,709	2,130,047,519	1,241,913,623	1,281,932,894	2,523,846,517	393,798,998	18.5%
Total House Bill 2 Proposals	**$3,664,675,607**	**$4,156,360,801**	**$7,821,036,408**	**$4,439,501,926**	**$4,542,493,566**	**$8,981,995,492**	**$1,160,959,084**	**14.8%**
Long-Range Building Proposals								
Miscellaneous Proposals	19,130	26,990,430	27,009,560	22,201,314	21,664,766	43,866,080	16,856,520	62.4%
Transfers	-	-	-	16,417,006	12,858,078	29,275,084	29,275,084	
Statutory Recommendations	574,155,926	401,930,764	976,086,690	536,760,608	555,616,253	1,092,376,861	116,290,171	11.9%
Total Executive Recommendations	**$4,238,850,663**	**$4,585,281,995**	**$8,824,132,658**	**$5,014,880,854**	**$5,132,632,663**	**$10,147,513,517**	**$1,323,380,859**	**15.0%**





MISCELLANEOUS APPROPRIATIONS

Besides HB 2, the general appropriations act, there are typically a number of other bills that make up the total executive budget. The following figure lists the bills that appropriate money and the amounts by fiscal year.

Appropriation Bills

Executive Budget: FY 2011 - 2013

	FY2012					FY2013				
Bill	GF	SSR	Federal	Proprietary	Total	GF	SSR	Federal	Proprietary	Total
HB 1	$0	$0	$0	$0	$0	$543,270	$0	$0	$0	$543,270
HB 6	0	7,210,000	0	0	7,210,000	0	0	0	0	0
HB 7	0	6,849,000	0	0	6,849,000	0	0	0	0	0
HB 8	0	13,724,457	0	0	13,724,457	0	0	0	0	0
HB 9	0	724,976	0	0	724,976	0	0	0	0	0
HB 11	0	1,000,000	0	0	1,000,000	0	0	0	0	0
HB 13	6,564,755	3,410,008	1,150,479	124,163	11,249,405	12,535,947	5,081,861	3,272,346	121,612	21,011,766
HB 15	0	12,069,265	0	0	12,069,265	0	0	0	0	0
HB 136	5,300,000	0	0	0	5,300,000	0	0	0	0	0
Total	$11,864,755	$44,987,706	$1,150,479	$124,163	$58,127,103	$12,535,947	$5,081,861	$3,272,346	$121,612	$21,555,036

	FY2011					
Bill	GF	SSR	Federal	Capital	Proprietary	Total
HB 1	$8,231,250	$0	$0	$0	$0	$8,231,250
HB 3	2,850,767				950,000	3,800,767
HB 4			100,000			100,000
HB 5	0	28,593,330	16,885,500	2,420,000	0	47,898,830
Total	$11,082,017	$28,593,330	$16,985,500	$2,420,000	$950,000	$60,030,847

APPENDIX C

INDEX TO OTHER LFD BUDGET REFERENCE DOCUMENTS

In addition to the Legislative Budget Analysis – 2013 Biennium (Volumes 1 through 7), there are several other reference documents that legislators and other interested parties can use as a source of information concerning budget and other fiscal matters. A limited number of reports of past biennia are available for reference in the LFD office (photo copies of pages of interest can be made). Training publications and brochures are available for distribution and on the LFD website. Check with an LFD staff member for assistance (see staff list near the front of this volume).

TRAINING PUBLICATIONS

Training materials prepared by the LFD include the following:

- Understanding State Finances and the Budgeting Process (A Reference Manual for Legislators) is a helpful guide for persons wanting more detailed information concerning fiscal matters
- HB 2 the Barbarian (How to Make HB 2 Implement Public Policy as Determined by the Legislature) describes the intricacies of developing the general appropriations act

FISCAL POCKET GUIDES

A variety of brochures have been prepared to provide summary information concerning select topics important to legislators and other interested parties.

√Bed Tax
√Beer Tax
√Cigarette Tax
√Coal Severance Tax
√Coal Severance Tax - A Data View
√Coal Severance Tax - A Pictorial View
√Coal Severance Tax – Distribution Detail
√Corporation Income Tax
√Electrical Energy Tax
√General Fund (by year)
√Higher Education
√Individual Income Tax
√Insurance Tax & License Fees
√Insure Montana
√K-12 Education Funding
√Liquor Excise Tax
√Medicaid
√Metalliferous Mines Tax
√Montana Highway Funding
√Oil & Natural Gas Tax
√Pertinent State Statistics
√Property Tax
√Rental Car Sales Tax
√Resource Indemnity Trust
√State Employees Budgeting
√State Financial and Budgeting Structure
√TANF (Temporary Assistance for Needy Families)
√Telecommunications Tax
√Tobacco Settlement
√Tobacco Settlement Financial Summary
√Tobacco Tax
√Video Gambling Tax

√Wholesale Energy Tax
√Wildfire Suppression Funding
√Wine Tax

The LFD would welcome suggestions for other possible topics for pocket guides.

Agency Profiles

The LFD has created a "profile" of each of the agencies of state government for which funding is provided in the general appropriations act. These profiles include summaries of what the agency does, how it does it, how it is funded, who its primary customers are, and how the legislature can effect change. The profiles also contain a history of expenditures and selected pertinent statistics.

Previous Reports

The Legislative Budget Analysis is prepared at the beginning of each session and the Legislative Fiscal Report is published at the end of each session. The latter is a record of legislative actions that resulted from the enactment of House Bill 2 and other appropriation legislation, as well as revenue estimation and discussion of other fiscal issues.

- The Legislative Budget Analysis for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library
- The Legislative Fiscal Report for all biennia beginning with the 1979 biennium is stored in the LFD office and in the State Library. Early versions of this report were titled the Appropriations Report

LFD Website

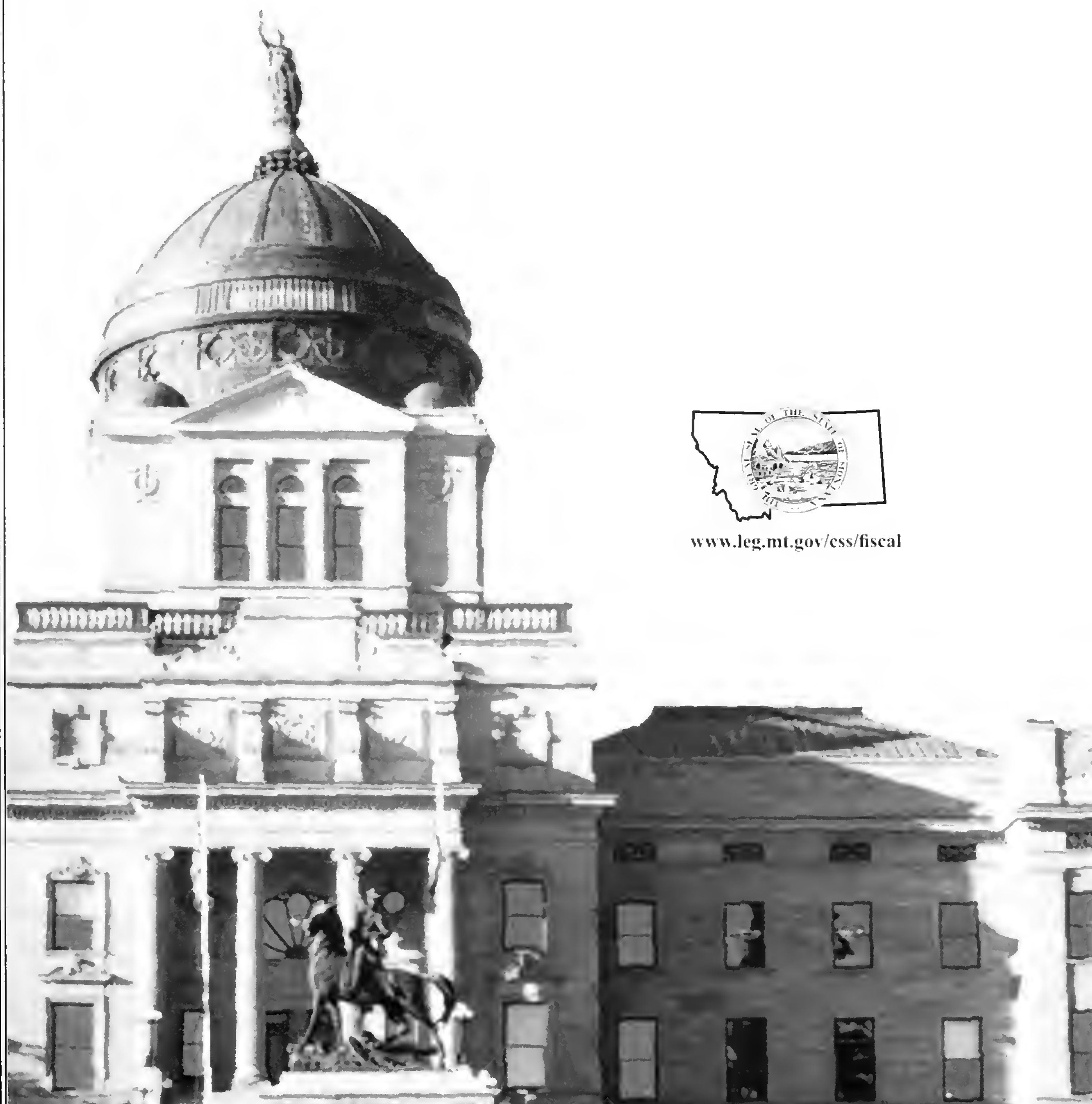
The Legislative Fiscal Division maintains a comprehensive website which, as mentioned, contains all of the above items except for items that predate the website (circa 1999).

Beginning with the 2011 Legislative Budget Analysis, some previously published items in the Volume 1 - Statewide Perspectives has been removed from that volume and placed on the LFD website with the Legislative Budget Analysis, in an area referred to as Volume 8. Feel free to ask LFD staff for assistance if you have trouble finding or accessing these items. The LFD website address is:

www.leg.mt.gov/css/fiscal/

On the LFD home page, you can find a list of available publications and reports.

Glossary / Acronyms / Index



www.leg.mt.gov/css/fiscal

GLOSSARY

A number of terms are used extensively in budgeting and appropriations. The most common terms, which are used throughout the budget analysis and in other fiscal materials, are listed and defined below.

Adjusted Base – The base budget, the level of funding authorized by the previous legislature, modified by annualization of personal services costs, inflationary or deflationary factors, changes in fixed costs, etc.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations. Types of appropriations are listed below.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium. In HB 2, it can be split between years, but still be biennial if so indicated.

Budget amendment – See "Budget Amendment" below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations for a one-time purpose that are excluded from the base budget in the next biennium.

Restricted – An appropriation designated for a specific purpose or function.

Statutory – Funds appropriated in permanent law rather than a temporary bill. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a "cat and dog" bill that is valid only for the biennium.

Appropriation Transfers (also see "Supplemental Appropriation") – The transfer of funds appropriated for the second year of the biennium to the first if the Governor or other approving authority determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

- The Governor or his/her designated representative for executive branch agencies
- The Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies
- The Speaker of the House of Representatives for the House
- The President of the Senate for the Senate

- The appropriate standing legislative committees or designated representative for the legislative branch divisions
- The Board of Regents of Higher Education or their designated representative for the university system

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services, such as Medicaid benefits. Personal services benefits for state employees are included in the personal services expenditure category.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activities.

Enterprise Funds – A fund used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Governor's Office of Budget and Program Planning, of the probable revenues and costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) aka State Fiscal Year (SFY) – A 12-month accounting period beginning July 1 and ending June 30. Fiscal year 2003 refers to the fiscal year ending June 30, 2003. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Fees (fixed costs) charged to agencies for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent appropriated funds that are returned to the general fund at the close of the budget period (fiscal year).

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

IRIS - The Integrated Revenue Information System (IRIS) is an automated system to administer taxes that are the responsibility of the Department of Revenue to collect.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System, which provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Non-budgeted Transfer – Funds moved from one account to another in the state accounting system based upon statutory authority but not by appropriation in the general appropriations act.

Operating Expenses – All operating expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds – Capital projects and fiduciary funds.

- Capital projects fund – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
- Fiduciary funds – Trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position according to that position's grade and the market rate.

Personal Services – Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The executive budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational units for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Enterprise or internal service funds. Statute does not require that most proprietary funds be appropriated.

- Enterprise funds – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
- Internal service funds - Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

ACRONYMS

AES	Agricultural Experiment Station
ACA	Affordable Care Act
ADP	Average Daily Population
AMDD	Addictive & Mental Disorders Division
ANB	Average Number Belonging (K-12 education)
ARM	Administrative Rules of Montana
ARRA	American Recovery and Reinvestment Act
BASE Aid	Base Amount for School Equity Aid
BPE	Board of Public Education
C&A	Cultural and Aesthetic (Trust)
CC	Community Colleges
CES	Cooperative Extension Service
CHE	Commissioner of Higher Education
CHIP	Children's Health Insurance Program (also SCHIP)
CIO	Chief Information Officer
COPP	Commissioner of Political Practices
COT	College of Technology, followed by campus designation
CPI	Consumer Price Index
DEQ	Department of Environmental Quality
MA	Department of Military Affairs
DNRC	Department of Natural Resources and Conservation
DOA	Department of Administration
DOAg	Department of Agriculture
DOC	Department of Commerce
DOC	Department of Corrections
DOJ	Department of Justice
DOLI	Department of Labor and Industry
DOR	Department of Revenue
DOT	Department of Transportation
DP	Decision Package
DPHHS	Department of Public Health and Human Services
ES	Extension Service
FCES	Forestry and Conservation Experiment Station
FMAP	Federal Medical Assistance Percentage (Medicaid match rate)
FSR	Federal Special Revenue
FSTS	Fire Services Training School
FTE	Full-Time Equivalent
FWP	Department of Fish, Wildlife, and Parks
FFY	Federal Fiscal Year
FY	Fiscal Year
FYE	Fiscal Year End
GAAP	Generally Accepted Accounting Principles
GF	General Fund
GSL	Guaranteed Student Loan
GTB	Guaranteed Tax Base
HB	House Bill
HAC	House Appropriations Committee
HMK	Healthy Montana Kids
HRD	Health Resources Division
HSRA	Highways Special Revenue Account
I&I	Interest and Income
IT	Information Technology
ITSD	Information Technology Services Division
LAD	Legislative Audit Division

LEPO	Legislative Environmental Policy Office
LFA	Legislative Fiscal Analyst
LFC	Legislative Finance Committee
LFD	Legislative Fiscal Division
LRBP	Long-Range Building Program
LRITP	Long-Range Information Technology Program
LRP	Long-Range Planning
LSD	Legislative Services Division
MAC	Montana Arts Council
MBARS	Montana Budgeting, Analysis, and Reporting System
MBCC	Montana Board of Crime Control
MBMG	Montana Bureau of Mines and Geology
MCA	Montana Code Annotated
MCHA	Montana Comprehensive Health Association
MDC	Montana Developmental Center
MDT	Montana Department of Transportation
MHP	Montana Highway Patrol
MHS	Montana Historical Society
MSDB	Montana School for the Deaf and Blind
MSF	Montana State Fund
MSL	Montana State Library
MSP	Montana State Prison
MSU	Montana State University, followed by campus designation i.e. MSU – Bozeman
MUS	Montana University System
MWP	Montana Women's Prison
NP	New Proposal
OBPP	Office of Budget and Program Planning (Governor's Office)
OCHE	Office of the Commissioner of Higher Education
OPI	Office of Public Instruction
OTO	One-Time-Only
PERS	Public Employees Retirement System
PL	Present Law
PPACA	Patient Protection and Affordable Care Act (Federal Health Care Reform)
PSC	Public Service Commission
PSR	Public Service Regulation
QSFP	Quality School Facilities Program
RDGP	Reclamation and Development Grant Program
RIGWA	Resource Indemnity and Groundwater Assessment Tax
RIT	Resource Indemnity Trust
RRGL	Renewable Resource Grant & Loan Program
RTIC	Revenue & Transportation Interim Committee
SA	Statutory Appropriation
SABHRS	Statewide Accounting, Budgeting, and Human Resources System
SAFETEA-LU	Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users
SAO	State Auditor's Office
SAVA	State Administration & Veterans' Affairs Interim Committee
SB	Senate Bill
SBECP	State Building Energy Conservation Program
SF&C	Senate Finance and Claims Committee
SLTC	Senior & Long-Term Care Division
SOS	Secretary of State
SSR	State Special Revenue
SWPLA	Statewide Present Law Adjustment
TANF	Temporary Assistance for Needy Families
TRS	Teachers' Retirement System
TSEP	Treasure State Endowment Program
TESPRW	Treasure State Endowment Program Regional Water Systems
UM	University of Montana, followed by campus designation, i.e. UM – Missoula

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325 copies of this public document were published at an estimated cost of $12.45 per copy, for a total cost of $4,046.25, which includes $4,046.25 for printing and $0.00 for distribution

Printed on recycled paper